1977

Illustrations of the disclosure of unaudited financial information in audited financial statements; Financial report survey, 13

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FINANCIAL REPORT SURVEY 13

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Stamford CT

Illustrations of the Disclosure of Unaudited Financial Information in Audited Financial Statements

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and
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EMERGING PROBLEMS DIVISION

Illustrations of the Disclosure of Unaudited Financial Information in Audited Financial Statements

Illustrations of the Disclosure of Unaudited Financial Information in Audited Financial Statements

by HORTENSE GOODMAN, CPA
AND
by LEONARD LORENSEN, CPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

NOTICE TO READERS

This is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute.

PREFACE

This publication is the thirteenth in a series produced by the Institute's staff through use of the Institute's National Automated Accounting Research System (NAARS). The first twelve in the series are listed on the inside cover of this publication.

The purpose of the series is to provide interested readers with examples of the application of technical pronouncements. It is believed that those who are confronted with problems in the application of pronouncements can benefit from seeing how others apply them in practice.

It is the intention to periodically publish similar compilations of information of current interest dealing with aspects of financial reporting.

The examples presented were selected from over six thousand annual reports stored in the NAARS computer data base.

This compilation presents only a limited number of examples and is not intended to encompass all aspects of the application of the pronouncements covered in this survey. Individuals with special application problems not illustrated in the survey may arrange for special computer searches of the NAARS data banks by contacting the Institute.

The views expressed are solely those of the staff.

George Dick
Research Administrator, Technical Information

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I

SCOPE AND PURPOSE OF THE SURVEY

NATURE OF UNAUDITED FINANCIAL INFORMATION

Financial statements are described as "audited" if they were examined by an independent auditor in accordance with generally accepted auditing standards and the independent auditor expressed an opinion on the fairness of their presentation in conformity with generally accepted accounting principles. Statements that do not fit that description are described as "unaudited."

Unaudited financial information is often inserted in the audited annual financial statements issued to shareholders of publicly-owned business enterprises. The most common type of unaudited financial information inserted in those statements is financial information pertaining to the four interim quarters of the current and preceding fiscal years, which is required for the larger companies registered with the Securities and Exchange Commission. Another type is information on the current replacement cost of inventories and property, plant, and equipment, which is required for certain large companies registered with the SEC. Other types are also inserted for reasons other than to comply with SEC regulations.

The SEC requirements for the disclosure of unaudited interim financial information are set forth in Accounting Series Release No. 177, issued in December 1975. The SEC requirements for the disclosure of information on current replacement costs are set forth in Accounting Series Release No. 190, issued in March 1976.

ASR Nos. 177 and 190 are reproduced in Appendices A and B to this survey. AICPA Statement on Auditing Standards No. 18, "Unaudited Replacement Cost Information," issued in May 1977, which discusses procedures independent auditors should apply to replacement cost information disclosed in accordance with ASR No. 190, is reproduced in Appendix C. SEC Staff Accounting Bulletins Nos. 7, 9, 10, 11, 12, and 13, which provide staff interpretations of ASR No. 190 and illustrations of its application, are not reproduced.

SOURCE OF ILLUSTRATIONS

Disclosing unaudited information in audited financial statements in accordance with ASR Nos. 177 and 190 and various authoritative accounting literature requires considerable judgment. An accountant who is confronted with problems in disclosing unaudited financial information can benefit from learning how other accountants are disclosing it in practice. Accordingly, 133 excerpts from financial statements contained in recently published annual reports to shareholders of business enterprises are presented in this publication to illustrate the disclosure of unaudited financial information.

The AICPA National Automated Accounting Research System (NAARS) was used to compile the information. The examples presented were selected from the published annual reports to shareholders of more than 6,000 companies stored in the computer data base.

II

FINANCIAL INFORMATION BY QUARTERS

SEC Accounting Series Release No. 177 requires a note to the annual financial statements—both those filed with the Commission on Form 10-K and those issued to shareholders—of companies of specified size registered with the Commission to set forth the net sales, gross profit, income before extraordinary items and cumulative effects of a change in accounting, per share data based upon such income, and net income for each full quarter within the two most recent fiscal years. If the information in the note, which may be designated "unaudited," differs from that previously reported on the Form 10-Q filed for any quarter, the note is required to contain a reconciliation of the amounts given with those previously reported together with a description of the reason for the difference. The note is also required to describe the effect of any disposals of segments of a business, and extraordinary, unusual, or infrequently occurring items recognized in each full quarter within the two most recent years, as well as the aggregate effect and the nature of year-end or other adjustments which are material to the results of that quarter. The information is required to be disclosed in the annual financial statements even if it was previously disclosed during the year in interim financial reports.

Forty-two examples are presented of the disclosure of unaudited interim financial information in apparent conformity with ASR No. 177. The examples are classified according to the nature of the unusual items or circumstances, if any, disclosed. Examples of the disclosure of financial information solely for the fourth quarter are presented in Chapter 3. Although the release does not require disclosure of information for quarters beginning prior to December 25, 1975, many companies included in NAARS reported information for 1975 quarters in addition to 1976 quarters.

NO UNUSUAL ITEMS—1976 QUARTERS ONLY

AKZONA INCORPORATED
Notes to Financial Statements

9. Quarterly Financial Data (Unaudited)

Quarterly financial data for the year ended December 31, 1976 are presented below. Cost of sales excludes depreciation and depletion expense.

	(in thousands, except per share amounts)			
1976	Net Sales	Cost of Sales	Net Income (Loss)	Income (Loss) Per Share
First quarter	$198,171	$151,589	$7,096	$0.57
Second quarter	180,127	143,508	3,403	0.27
Third quarter	174,681	149,418	(2,035)	(0.16)
Fourth quarter	175,592	148,387	(2,842)	(0.23)
Total	$728,571	$592,902	$5,622	$0.45

CATERPILLAR TRACTOR CO.
Notes to Financial Statements

12. Selected Quarterly Financial Data (Unaudited)

Financial data for the interim periods of 1976 were as follows (dollar amounts in milions except those stated on a share basis):

	Quarter			
	1st	2nd	3rd	4th
Net sales	$1,199.8	$1,266.6	$1,312.9	$1,263.0
Gross profit	285.6	306.2	318.5	243.6
Profit for period	101.3	105.8	105.8	70.3
Profit per share of common stock (note 1F):				
Assuming no dilution	$1.18	$1.23	$1.23	$.81
Assuming full dilution	$1.15	$1.18	$1.19	$.79

A substantial but indeterminable volume of sales that normally would have been made in the second quarter was made in the first quarter due to shipments made under a Spring Inventory Plan.

THE JAPAN FUND, INC.
Notes to Financial Statements

Note 6—Quarterly Results of Operations:

Following is a summary of unaudited quarterly results, as required by a new regulation, Rule 3-16(t)(1) of Regulation S-X, as applied to certain closed-end investment companies, including the Fund, under the Securities Exchange Act of 1934:

For the three months ended:	December 31, 1976		September 30, 1976		June 30, 1976		March 31, 1976	
	Total*	Per Share	Total*	Per Share	Total*	Per Share	Total*	Per Share
Total investment income	$ 688	$0.06	$ 910	$0.07	$ 757	$0.06	$ 503	$0.04
Net investment income	437	0.04	682	0.06	510	0.04	261	0.02
Net realized and unrealized gain on investments	20,828	1.71	5,474	0.44	3,532	0.29	3,130	0.27

*Thousands

NATIONAL FUEL GAS COMPANY
Notes to Financial Statements

Note K. Interim Financial Information (Unaudited):

In the opinion of the Company, the following quarterly information includes all adjustments (constituting only normal recurring adjustments) necessary for a fair statement of the results of operations for such periods. Due to the seasonal nature of the Company's heating business, there are substantial variations in operations reported on a quarterly basis.

	(in thousands) Quarter Ended			
	December 31 1975	March 31 1976	June 30 1976	September 30 1976
Operating revenues	$105,263	$153,250	$89,222	$59,145
Operating income	8,943	16,624	5,288	539
Net income	5,314	13,399	2,563	(1,892)
Earnings on common stock	5,314	13,399	2,348	(2,582)
Earnings per common share (in dollars)	1.04	2.61	.46	(.50)

Reference is made to Note B regarding increased rates being collected subject to refund.

NO UNUSUAL ITEMS—1975 AND 1976 QUARTERS

BOZZUTO'S, INC.
Notes to Financial Statements

M. Selected Quarterly Financial Data

Rule 3-16(t) of Regulation S-X of the Security [*sic*] and Exchange Commission stipulate that certain registrant companies include summarized quarterly financial data as reported in the quarterly 10-Q reports to the Commission in their Annual Report 10-K. The selected unaudited quarterly financial data for Bozzuto's Inc., and consolidated subsidiaries for the fiscal year ended September 25, 1976 are presented on page 9.

Page 9

Quarterly Information (Unaudited)

Quarter Ended	Sales and Revenues 1976	Sales and Revenues 1975	Net Income Amount 1976	Net Income Amount 1975	Net Income Per Share 1976	Net Income Per Share 1975
First (12 weeks)	$ 39,938,981	$ 33,558,405	$187,817	$173,546	$ .30	$ .28
Second (12 weeks)	35,553,029	38,734,573	152,297	169,299	.25	.27
Third (12 weeks)	37,090,670	43,088,696	251,669	214,286	.40	.34
Fourth (16 weeks)	51,939,381	56,403,646	312,917	151,504	.50	.25
Totals	$164,522,061	$171,785,320	$904,700	$708,635	$1.45 (A)	$1.14 (A)

(A) Includes $.09 for 1976 and $.14 for 1975 attributed to the earnings of WAYCO sold on October 28, 1976.
(B) There were no extraordinary items affecting income in any of the quarters for either year.
(C) There were no changes in accounting methods or procedures in any of the four quarters.
(D) The financial data presented above coincides with the data reported on the Company's 10-Q filed with the Securities and Exchange Commission during the two years.

THE GOODYEAR TIRE & RUBBER COMPANY
Notes to Financial Statements

Quarterly Data (Unaudited)

Dollars in millions, except per share

Quarter	Net Sales	Gross Profit	Net Income Total	Net Income Per Share
1976				
First	$1,453.6	$ 322.6	$ 43.7	$ .60
Second	1,503.2	304.8	30.8	.43
Third	1,307.4	245.4	(5.3)	(.07)
Fourth	1,527.3	379.2	52.8	.73
For the year	$5,791.5	$1,252.0	$122.0	$1.69
1975				
First	$1,235.5	$ 285.9	$ 22.1	$ .31
Second	1,416.7	335.4	51.8	.71
Third	1,394.9	304.5	55.4	.77
Fourth	1,405.4	322.4	32.3	.45
For the year	$5,452.5	$1,248.2	$161.6	$2.24

Gross profit represents net sales less cost of goods sold including applicable depreciation. Second and third quarter 1976 results reflect the 130-day strike at 15 major domestic locations.

Price Waterhouse & Co. has made a limited review of the quarterly data presented above insofar as they relate to 1976 in accordance with standards established by the American Institute of Certified Public Accountants. However, such limited review procedures do not constitute an examination in accordance with generally accepted auditing standards and accordingly they express no opinion thereon.

BURROUGHS CORPORATION
Notes to Financial Statements

15. Quarterly Financial Information (Unaudited)

The quarterly financial information for 1975 has not been subjected to the limited review procedures established in 1976 by the American Institute of Certified Public Accountants.

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total for Year
Revenue	1976	$405,272,952	$464,300,088	$443,235,144	$589,041,061	$1,901,849,245
	1975	365,212,829	416,890,023	367,712,404	552,292,568	1,702,107,824
Income before income taxes	1976	41,849,872	70,819,716	63,328,579	139,405,973	315,404,140
	1975	43,505,988	69,341,904	55,889,017	122,872,590	291,609,499
Net income	1976	24,269,872	42,469,716	37,188,579	81,975,973	185,904,140
	1975	23,370,988	39,136,904	32,779,017	69,122,590	164,409,499
Net income per share	1976	0.61	1.05	0.92	2.04	4.62
	1975	0.59	0.99	0.83	1.73	4.14

COPELAND CORPORATION
Notes to Financial Statements

Net Sales and Earnings by Quarter (Unaudited)

Fiscal Year and Quarter	Net Sales	Net Earnings	Per Share
1975			
First	$ 41,984,000	$ 1,281,000	$0.21
Second	42,437,000	1,594,000	0.27
Third	37,790,000	1,739,000	0.29
Fourth	37,269,000	1,691,000	0.28
	$159,480,000	$ 6,305,000	$1.05
1976			
First	$ 42,390,000	$ 2,390,000	$0.41
Second	61,642,000	3,793,000	0.66
Third	61,558,000	3,506,000	0.61
Fourth	38,463,000	1,887,000	0.33
	$204,053,000	$11,576,000	$2.01

ORANGE-CO, INC.
Notes to Financial Statements

11. Quarterly Financial Data (Unaudited):

	In Thousands of Dollars		Per Share Data (See Note 2)	
	Revenue	Net Income	Assuming No Dilution	Assuming Full Dilution
1976:				
1st quarter	$17,079	$ 795	$.21	$.21
2nd quarter	21,750	1,163	.27	.25
3rd quarter	23,443	1,403	.33	.31
4th quarter	20,055	677	.14	.14
Year	82,327	4,038	.95	.92
1975:				
1st quarter	14,500	653	.17	.17
2nd quarter	17,292	788	.20	.20
3rd quarter	17,152	1,022	.29	.27
4th quarter	15,904	919	.26	.24
Year	64,848	3,382	.92	.88

RALSTON PURINA COMPANY
Notes to Financial Statements

Quarterly Financial Information—Unaudited

The following interim information has not been audited by Price Waterhouse & Co. in accordance with generally accepted auditing standards and accordingly they express no opinion thereon.

	1976	1975
First quarter		
Sales	$825.3	$830.6
Gross profit	164.7	137.7
Earnings	32.1	25.6
Primary earnings per share	.90	.72
Second quarter		
Sales	829.1	758.5
Gross profit	166.7	129.1
Earnings	31.0	20.9
Primary earnings per share	.87	.59
Third quarter		
Sales	810.0	764.3
Gross profit	147.3	135.0
Earnings	32.1	25.0
Primary earnings per share	.90	.70
Fourth quarter		
Sales	929.4	795.7
Gross profit	183.1	150.5
Earnings	30.7	28.0
Primary earnings per share	.86	.79

RUBBERMAID INCORPORATED
Notes to Financial Statements

(11) Quarterly Financial Information—Unaudited
(Dollars in thousands except Per Share amounts)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	1976	1975	1976	1975	1976	1975	1976	1975
Net sales	$46,101	34,873	45,652	35,919	50,103	43,548	44,366	39,657
Cost of sales	30,004	24,304	30,182	24,375	32,763	28,085	30,017	25,490
Selling, general and administrative expenses	8,865	7,610	8,950	7,459	9,317	8,494	8,962	8,145
Interest expenses	113	191	108	129	110	124	161	116
Miscellaneous credits, net	217	208	69	166	76	22	307	(50)
Earnings before income taxes	7,336	2,976	6,481	4,122	7,989	6,867	5,533	5,856
Income taxes	3,636	1,414	3,127	1,946	3,975	3,486	2,704	2,755
Net earnings	$ 3,700	1,562	3,354	2,176	4,014	3,381	2,829	3,101
Net earnings per Common Share	.48	.20	.43	.28	.52	.44	.37	.40
Cash dividends paid	773	695	773	696	928	773	928	773
Dividends per Common Share	.10	.09	.10	.09	.12	.10	.12	.10
Stock price range:								
High	$29.38	19.88	27.00	25.50	25.88	25.13	28.63	27.75
Low	$24.75	14.00	24.00	17.00	22.50	20.50	22.63	21.00

Net earnings per Common Share are based on the average shares outstanding. The stock price range is based on NYSE quotations.

HATTERAS INCOME SECURITIES, INC.
Notes to Financial Statements

6. Unaudited Quarterly Results of Operations:
The following is a summary of unaudited quarterly results of operations:

(Thousands of Dollars except for per share amounts)
Three Months Ended

	March 31, 1976		June 30, 1976		September 30, 1976		December 31, 1976	
Total investment income	$1,112		$1,131		$1,140		$1,128	
Net investment income	1,023	.37	1.035	.38	1,043	.38	1,031	.37
Net realized and unrealized gain (loss) on investments	2,558	.93	(292)	(.11)	1,961	.71	1,298	.48

BUSINESS COMBINATION

UNITED TELECOMMUNICATIONS, INC.

Accounting Policies

• • • •

Basis of Consolidation

• • • •

In April 1976, United issued 315,000 shares of its common stock in exchange for the outstanding common and preferred stock of West Jersey Telephone Co. In November 1976, United issued 231,596 shares of its common stock in exchange for the assets and liabilities of Standard Computer Corporation. These transactions have been accounted for as a pooling of interests and have no material effect on revenues, net income or earnings per share of United. See pages 32 and 33 for information prior to mergers and unaudited interim information for 1976.

• • • •

Consolidated Statement of Income

(Thousands of Dollars)	First Quarter 1976	First Quarter 1975*	Second Quarter 1976	Second Quarter 1975*	Third Quarter 1976	Third Quarter 1975*	Fourth Quarter 1976	Fourth Quarter 1975*
Telephone Operations								
Operating Revenues								
Local service	$ 86,578	$ 77,609	$ 89,017	$ 81,226	$ 89,534	$ 79,167	$ 93,218	$ 85,743
Toll service	104,315	89,427	107,170	92,573	117,213	101,571	113,157	109,184
Miscellaneous	5,353	5,085	5,615	5,543	5,887	6,021	5,642	6,415
	196,246	172,121	201,802	179,342	212,634	186,759	212,017	201,342
Operating Expenses								
Maintenance	35,233	30,257	33,945	31,315	35,608	32,788	38,225	35,218
Depreciation	34,472	30,216	35,491	31,079	36,162	33,450	37,050	33,862
Other operating expenses	41,397	37,617	43,105	38,465	44,656	39,252	41,969	42,179
Federal income tax	10,261	5,892	9,619	4,633	14,162	5,654	5,831	11,916
Investment tax credit	3,794	1,978	5,149	5,515	4,803	5,107	5,352	5,381
Provision for deferred federal income tax	6,951	8,820	7,849	8,277	7,223	9,027	14,086	6,701
State, local and miscellaneous taxes	18,913	16,609	19,330	16,862	18,904	17,262	19,027	16,608
	151,021	131,389	154,488	136,146	161,518	142,540	161,540	151,865
Telephone Operating Income	45,225	40,732	47,314	43,196	51,116	44,219	50,477	49,477
Other Income								
Interest charged to construction	1,583	2,054	1,629	2,131	1,617	1,921	1,817	1,518
Other, net	216	78	(44)	57	382	219	35	(17)
	1,799	2,132	1,585	2,188	1,999	2,140	1,852	1,501

Other Deductions								
Interest on long-term debt	17,869	16,934	17,760	17,621	18,063	17,655	18,233	17,747
Interest on short-term debt	1,090	2,338	1,086	1,790	1,078	1,557	879	1,369
Preferred stock dividends of subsidiaries	1,034	1,008	1,033	1,035	1,033	1,035	1,032	1,033
	19,993	20,280	19,879	20,446	20,174	20,247	20,144	20,149
Income Applicable to Telephone Operation	27,031	22,584	29,020	24,938	32,941	26,112	32,185	30,829
North Electric Operations								
Net Sales	55,369	52,969	56,097	50,373	62,186	49,266	71,283	55,631
Cost of Sales and Operating Expenses								
Cost of sales	46,157	43,889	47,470	43,237	53,728	41,916	59,743	47,458
Operating expenses	6,382	5,958	7,029	5,658	7,539	6,158	9,574	5,875
Interest on long-term debt	741	972	648	864	430	842	429	724
Other interest	15	271	18	7	106	5	69	4
Federal income tax	366	872	372	261	753	1	1,363	(781)
Provision for deferred income tax	600	—	45	—	(713)	—	(789)	1,481
	54,261	51,962	55,582	50,027	61,843	48,922	70,389	54,761
Income Applicable to North Electric Operations	1,108	1,007	515	346	343	344	894	870
Parent Operations	(3,762)	(3,848)	(3,787)	(3,990)	(4,061)	(4,079)	(3,781)	(3,728)
Other Operations								
United Computing Systems, Inc.	345	190	567	(13)	728	56	766	(55)
Other	(7)	8	27	69	(175)	99	14	(111)
Income from Continuing Operations	24,715	19,941	26,342	21,350	29,776	22,532	30,078	27,805
Discontinued Operations								
Income from discontinued operations less applicable income tax effect	29	147	255	243	207	321	887	188
Gain (loss) from sale or dissolution of discontinued operations less applicable income tax effect	14	(1,059)	65	203	306	—	—	140
Net Income	24,758	19,029	26,662	21,796	30,289	22,853	30,965	28,133
Preferred Stock Dividends	3,415	3,449	3,409	3,427	3,386	3,422	3,278	3,418
Restated Earnings Applicable to Common Stock	$ 21,343	$ 15,580	$ 23,253	$ 18,369	$ 26,903	$ 19,431	$ 27,687	$ 24,715
Earnings prior to merger								
West Jersey Telephone Co.	$ 147	$ 71	$ —	$ 93	$ —	$ 82	$ —	$ 186
Standard Computer Corporation	220	22	172	5	141	4	17	90
Earnings of United prior to mergers	$ 20,976	$ 15,487	$ 23,081	$ 18,271	$ 26,762	$ 19,345	$ 27,670	$ 24,439
Earnings Per Share from Continuing Operations								
Assuming no dilution	44¢	36¢	46¢	39¢	54¢	40¢	53¢	51¢
Assuming full dilution	40¢	34¢	43¢	36¢	48¢	38¢	48¢	46¢
Earnings Per Share								
Assuming no dilution	44¢	34¢	47¢	40¢	54¢	41¢	56¢	51¢
Assuming full dilution	40¢	32¢	44¢	38¢	49¢	38¢	49¢	46¢
Dividends Per Share								
Common	28¢	27¢	28¢	27¢	30¢	28¢	30¢	28¢
First Series Convertible Preferred	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢
Second Series Convertible Preferred	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢	37.5¢

*Restated to include companies merged on a pooling of interests basis.

CHANGE IN ACCOUNTING ESTIMATE

FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS
Notes to Financial Statements

14. Quarterly Results (Not Covered by Auditors' Report)

Following is an unaudited summary of the results of operations for the second, third and fourth fiscal quarters of fiscal 1976:

	Quarter ended		
	April 30, 1976	July 31, 1976	October 31, 1976
Rental Income	$5,532,005	$5,547,695	$6,505,725
Net rental income	$3,694,573	$3,717,525	$4,225,074
Net income	$ 840,012	$1,045,735	$ 851,467
Net income per share	$.21	$.26	$.21

Unusual or infrequently occurring items recognized in income for the second and third quarters include, respectively, a $140,000 and $87,000 loan prepayment fee from First Union Commercial Properties Expansion Company (see Note 5 to Combined Financial Statements) and, with respect to the second quarter and fourth quarter, lease cancellation fees of $13,000 and $172,000, respectively.

Also, the Trust had eleven of its properties appraised. As a result of this appraisal, finalized as of June 30, 1976, the estimated useful lives of these properties were changed to reflect increased economic useful lives from one to ten years per property, effective November 1, 1975, the beginning of the fiscal year. The effect of this change in accounting estimate was to reduce depreciation expense and increase net income during the quarters ended July 31, 1976 and October 31, 1976 by $326,201 or $.08 per share, and $108,733 or $.03 per share, respectively.

CHANGE IN ACCOUNTING PRINCIPLE

NORTHERN NATURAL GAS COMPANY
Notes to Financial Statements

16. Quarterly Results (Unaudited):

Selected quarterly financial data for 1976 are included on page 25.

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Quarterly Results (Unaudited)

	Operating Revenues	Gross Profit	Net Income	Earnings Per Share
	(Thousands, except per share amounts)			
1975				
First Quarter	$316,077	$174,138	$41,407	$1.84
Second Quarter	248,324	133,826	25,462	1.12
Third Quarter	260,302	140,483	27,323	1.20
Fourth Quarter	338,501	188,638	36,951	1.64
1976				
First Quarter	$384,776	$207,177	$58,574	$2.62
Second Quarter	287,366	144,105	26,584	1.17
Third Quarter	291,386	145,184	23,605	1.02
Fourth Quarter	419,914	199,791	33,762	1.49

To comply with Financial Accounting Standards Board Statement No. 5, Accounting for Contingencies, the Company reversed self-insurance reserves of $4.0 million and general contingency reserves of $1.3 million during the 1976 first quarter which increased net income $2.7 million.

LIBBEY-OWENS-FORD COMPANY
Notes to Financial Statements

Note M—Quarterly Results of Operations (Unaudited):

The following is a tabulation of the unaudited quarterly results of operations for the year ended December 31, 1976.

	Three Months Ended				
	March 31		June 30	September 30	December 31
	(Thousands of dollars, except per share data)				
Net sales	$216,891		$227,174	$206,901	$220,539
Gross profit	51,297		55,382	47,182	53,804
Net earnings	15,498	(1)	17,454	12,296	13,616
Pre share amounts:					
Primary	1.30	(1)	1.47	1.02	1.13
Fully Diluted	1.23	(1)	1.39	.99	1.08

(1) As more fully described in Note C, the Company discontinued its policy of deferring net exchange gains from the realignment of foreign currencies and during the three months ended March 31, 1976 recorded in earnings such gains previously deferred amounting to $.10 per share.

NOXELL CORPORATION
Notes to Financial Statements

10. Interim Data (Unaudited)

The following data represents a summary of quarterly operating highlights during 1976 and 1975 (in thousands of dollars):

	1976 Quarter			
	1st	2nd	3rd	4th
Net sales	$34,832	$30,394	$31,181	$25,760
Gross profit	21,449	18,989	19,132	15,920
Net income	3,141	2,151	1,751	1,266
Earnings per common share	$ .62	$ .43	$ .34	$ .26
	1975 Quarter			
	1st	2nd	3rd	4th
Net sales	$27,170	$26,711	$25,454	$21,880
Gross profit	15,524	15,436	14,400	13,162
Net income	1,752	1,683	1,319	1,062
Earnings per common share	$ .35	$ .33	$ .26	$ .21

The Company's interim reporting procedures are to accrue and assign advertising and promotion costs to quarterly periods in relation to sales so that each period bears a proportionate share of anticipated annual costs.

The 1975 second quarter net income and earnings per common share were restated to reflect a change in method of accounting for translation of foreign currency financial statements, as previously reported.

DISCONTINUED OPERATION

C. BREWER AND COMPANY, LIMITED
Notes to Financial Statements

1976 Quarterly Financial Data (Unaudited)

Presented hereunder is selected quarterly financial data for the year ended December 26, 1976:

	Quarter Ended			
	March 28	June 27	Sept. 26	Dec. 26
	(In thousands)			
Sales, revenue and other income	$59,136	$ 58,200	$ 54,213	$ 66,988
Costs and expenses	57,182	58,719	58,250	77,250
Earnings (loss) from continuing operations before income taxes and minority interest	1,954	(519)	(4,037)	(10,262)
Minority interest	115	48	139	(51)
Income taxes	622	(48)	(3,041)	(4,346)
Earnings (loss) from continuing operations	1,217	(519)	(1,135)	(5,865)
Discontinued operations, net of income taxes	871	(2,195)	13	(1,059)
Net earnings (loss)	$ 2,088	$ (2,714)	$ (1,122)	$ (6,924)
Earnings (loss) per common and common equivalent share:				
From continuing operations	$ .27	$ (.11)	$ (.25)	$ (1.29)
From discontinued operations	.19	(.48)	—	(.23)
Net earnings (loss)	$ .46	$ (.59)	$ (.25)	$ (1.52)

Discontinued operations reflect the disposition of the shipbuilding, construction and anticipated disposition of the building materials business segments as described more fully in the note entitled "Discontinued Operations." Reclassifications have been made to the quarterly data of the first three quarters previously reported at the end of those quarters to reflect the results of operations of businesses subsequently discontinued in 1976 under the caption "Discontinued Operations, net of income taxes." Such reclassifications which resulted in no change in previously reported net earnings (loss) for the quarters are summarized hereunder:

	Quarter Ended		
	March 28	June 27	Sept. 26
	(In thousands)		
Sales, revenue and other income, as previously reported at end of quarter	$63,916	$ 61,669	$ 57,381
Revenue relating to operations discontinued in subsequent quarters reclassified to discontinued operations	4,780	3,469	3,168
Sales, revenue and other income, after reclassification	$59,136	$ 58,200	$ 54,213
Earnings (loss) from continuing operations, as previously reported at the end of quarter	$ 1,310	$ (417)	$ (1,023)
Loss relating to operations discontinued in subsequent quarters reclassified to discontinued operations	(93)	(102)	(112)
Earnings (loss) from continuing operations, after reclassification	$ 1,217	$ (519)	$ (1,135)
Discontinued operations, net of income taxes, as previously reported at end of quarter	$ 778	$ (2,297)	$ (99)
Operations discontinued in subsequent quarters reclassified from continuing operations	93	102	112
Discontinued operations, net of income taxes, after reclassification	$ 871	$ (2,195)	$ 13

The fourth quarter loss from continuing operations includes a provision for loss on the disposition of the Waiakea Resort Village and Marketplace aggregating $1,532,000 (net of related income tax benefit of $978,000) as described more fully in the note entitled "Proposed Sale." In addition, substantial losses were incurred in the fourth quarter in the Company's sugar and potato operations as a result of further declines in market prices for these commodities.

THE FLINTKOTE COMPANY
Notes to Financial Statements

Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1976 is as follows:

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
Net sales	$90,269	$128,236	$148,725	$122,670
Cost of goods and services sold	(78,690)	(104,764)	(124,298)	(107,041)
Other expenses and income, net	(12,830)	(13,247)	(14,107)	(14,552)
	(1,251)	10,225	10,320	1,077
Loss on sale or termination of certain excess properties and operations	(372)	(639)	(2,595)	(3,972)
Income (loss) from continuing operations before income taxes	(1,623)	9,586	7,725	(2,895)
Provision for income taxes	(708)	3,712	1,999	(2,250)
Income (loss) from continuing operations	(915)	5,874	5,726	(645)
Loss from discontinued pipe operations	(89)	(309)	(262)	(1,197)
Net income (loss)	($ 1,004)	$ 5,565	$ 5,464	($ 1,842)
Per share data after provision for preferred dividends:				
Income (loss) from continuing operations	($.23)	$.97	$.95	($.18)
Loss from discontinued pipe operations	(.02)	(.05)	(.05)	(.21)
Net income (loss)	($.25)	$.92	$.90	($.39)

Quarterly financial data for 1976, as previously reported, has been reclassified for the effect of the decision in the fourth quarter to discontinue the pipe operations. Net sales and cost of goods sold, respectively, for the discontinued pipe operations for each of the quarters are as follows: first, $2,654 and $2,422; second, $1,788 and $2,020; third, $2,537 and $2,639; fourth, $2,303 and $2,495. The quarterly financial data has also be reclassified for the closing of the Middlebranch cement plant and other operations to conform to the presentation in the accompanying financial statements. Net sales and cost of goods sold, respectively, for the Middlebranch operation for each of the quarters are as follows: first, $606 and $953; second, $1,492 and $1,851; third, $1,588 and $2,491; fourth, $1,040 and $1,495. See "Unusual Items and Discontinued Operations" for more data.

A.O. SMITH CORPORATION
Notes to Financial Statements

10. Quarterly Results of Operations (Unaudited):
(000 omitted except per share data)

	1976			
Quarter ended	3/31	6/30	9/30	12/31
Net sales	$152,062	$165,615	$140,271	$161,519
Profit from operations	$ 9,222	$ 10,455	$ 3,857	$ 9,889
Earnings from continuing operations	$ 5,245	$ 5,626	$ 1,105	$ 3,651
Gain from discontinued operations	420	—	1,155	—
Net earnings	$ 5,665	$ 5,626	$ 2,260	$ 3,651
Earnings per share of common stock:				
Continuing operations	$ 1.07	$ 1.15	$ .23	$ .74
Discontinued operations	.09	—	.23	—
Net earnings	$ 1.16	$ 1.15	$ .46	$ .74

DOW JONES & COMPANY, INC.
Notes to Financial Statements

Note 15. Summary of Quarterly Financial Data (Unaudited):
The summary of unaudited 1976 quarterly financial data shown on page 8 of this report is incorporated herein by reference.

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Summary of Quarterly Financial Data (Unaudited)
(in thousands except per share amounts)

	Quarter ended			
	March 31	June 30	September 30	December 31
1976				
Net sales	$60,877	$66,889	$70,679	$76,437
Operating income	11,406	15,233	16,986	18,165
Net income	5,028	6,910	8,396	9,994
Net income per share	.32	.43	.53	.63
1975				
Net sales	52,434	58,361	61,747	65,328
Operating income	9,999	13,722	13,996	13,612
Net income	5,132	7,017	6,653	7,736
Net income per share	.32	.44	.42	.49

Unrealized foreign exchange gains or losses, as shown to the right, significantly affected quarterly earnings comparisons. However, on an annual basis, net income was not materially affected.

	Unrealized Foreign Exchange Gain (Loss)	
Quarter ended	1976	1975
March 31	$(487)	$ 98
June 30	(321)	125
September 30	38	(40)
December 31	807	(88)
Year	$ 37	$ 95

OAK INDUSTRIES INC.
Notes to Financial Statements

(12) Summary of Quarterly Results (Unaudited):

	Quarter Ended			
	March 31 1976	June 30 1976	September 30 1976	December 31 1976
	(in thousands except per share)			
Net Sales	$35,673	$37,681	$34,023	$36,761
Gross Income	$ 8,092	$ 8,833	$ 7,582	$ 8,632
Income before income taxes	$ 1,479	$ 1,695	$ 424	$ 1,760
Provision for income taxes	705	822	198	1,008
Net Income	$ 774	$ 873	$ 226	$ 752
Net income per share of common stock—				
Primary	$ .42	$ .48	$ .09	$ .40
Pro-Forma	$ .39	$ .43	$ .09	$ .37

The fourth quarter effective tax rate of 57% is the result of adjusting the Company's previously estimated effective tax rate to the actual annual rate.

Net income for the third quarter has been reduced for translation losses of $260,000 ($.16 per share) primarily due to the devaluation of the Mexican peso on September 1, 1976.

GOODWILL WRITEOFF

TELEDYNE, INC.
Notes to Financial Statements

(16) Selected Quarterly Financial Data (Unaudited)

	Quarter Ended			
	March 31, 1976	June 30, 1976	September 30, 1976	December 31, 1976
Consolidated sales	$459,950,000	$481,877,000	$480,993,000	$514,736,000
Consolidated gross profit	$111,445,000	$120,593,000	$126,632,000	$141,717,000
Income of consolidated companies	$ 23,481,000	$ 27,611,000	$ 29,457,000	$ 32,706,000
Equity in net income of unconsolidated subsidiaries	9,827,000	4,261,000	4,910,000	2,626,000
Net income	$ 33,308,000	$ 31,872,000	$ 34,367,000	$ 35,332,000
Average shares outstanding:				
Primary	13,988,340	12,016,484	11,747,900	11,516,229
Fully diluted	14,668,955	12,582,509	12,145,195	11,909,385
Net income per share:				
Primary	$2.34	$2.61	$2.89	$3.03
Fully diluted	$2.28	$2.53	$2.83	$2.97

During the quarter ended December 31, 1976, the Company and an unconsolidated subsidiary charged to operations amounts representing costs in excess of net assets of purchased businesses since such excess represented no further value to the companies. This resulted in a decrease in net income for the quarter of $7,508,000.

INCOME TAX, CHANGE IN LAW

DYNELL ELECTRONICS CORPORATION
Notes to Financial Statements

(Note J)—Financial Data (Not Covered by Accountants' Report):

[1] Unaudited Quarterly Financial Data:

	Quarters Ended				
	December 31, 1975	March 31, 1976	June 30, 1976	September 30, 1976	Year Ended September 30, 1976
Sales	$5,945,000	$6,183,000	$5,480,000	$4,700,000	$22,308,000
Gross profit	1,325,000	1,546,000	1,703,000	1,641,000	6,215,000
Earnings before taxes on income	351,000	333,000	226,000	192,000	1,102,000
Net earnings	231,000	225,000	149,000	97,000	702,000
Earnings per common share primary and fully diluted*	$.11	$.10	$.06	$.04	$.31

*Adjusted retroactively for a three-for-two stock split paid in June 1976 and 5% stock dividend declared December 13, 1976.

[2] Year-End Adjustment:

A year-end adjustment as of September 30, 1976 reflecting the retroactive effect of the Tax Reform Act of 1976 as it pertains to DISC operations (see Note D) resulted in a decrease of approximately $36,000 or $.02 per share in the net earnings for the fourth quarter of the year ended September 30, 1976.

INCOME TAX, LOSS CARRYFORWARD

CHESSIE SYSTEM, INC
Notes to Financial Statements

(13) Quarterly Data (Unaudited)

Following are selected quarterly data for the year 1976 (in thousands of dollars except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Total income	$323,110	$397,482	$360,967	$372,187	$1,453,746
Earnings before income taxes and extraordinary items	6,341	47,958	27,513	35,871	117,683
Earnings before extraordinary items	5,166	37,255	22,243	37,461	102,125
Earnings for the period	5,778	37,293	22,243	36,811	102,125
Earnings per share					
Primary					
Before extraordinary items	.27	1.96	1.17	1.98	5.38
For the period	.31	1.96	1.17	1.94	5.38
Fully diluted					
Before extraordinary items	.26	1.87	1.12	1.94	5.19
For the period	.30	1.87	1.12	1.90	5.19

During the fourth quarter an agreement was reached with the Internal Revenue Service which allowed a larger portion of the loss on the sale of Reading Company capital stock as a deduction against taxable income of prior years, eliminating the remaining capital loss being carried forward from December 31, 1975. As a result, the extraordinary credits arising from use of the carryforward in the first and second quarters were reversed in the fourth quarter and current Federal income tax expense was reduced by approximately the same amount.

INVENTORY, LIFO RESERVE ESTIMATE

CHELSEA INDUSTRIES, INC.
Notes to Financial Statements

Quarterly Financial Data (Unaudited)
Summarized financial data for fiscal 1976 is as follows:

	13 Weeks Ended			14 Weeks Ended
	December 27	March 27	June 26	October 2
Net Sales	$46,853	$50,261	$ 51,048	$48,225
Gross Profit	8,683	7,956	6,223	7,034
Net Income (Loss)	1,011	190	(842)	19
Earnings per share:				
Primary	$ .47	$ .09	$ (.41)	$ .01
Fully diluted	$ .40	$ .09	$ (.41)	$ .01

Computations of earnings per share for each quarter are independent and do not necessarily equal the amount computed for the year. The assumed conversion of debentures entering into the computation of fully diluted earnings per share in the first quarter does not impact the year as a whole.

The Company follows the interim accounting practice of accruing monthly provisions for certain expenses. Final determination of the actual amount of these expenses generally occurs in the fourth quarter at which time the accounting records are adjusted to reflect actual results. Fourth quarter adjustments related to these items had the effect of increasing net income for the quarter by approximately $535 ($.25 per share), offsetting the corresponding reductions in the prior quarters. Net income was also increased to the extent of the "contingency recovery" of approximately $320 ($.15 per share) and the reduction in LIFO reserve, in excess of that previously estimated, of $250 ($.12 per share) recognized in the quarter. Excess cost over net assets of specific acquired companies charged to fourth quarter earnings amounted to $850 ($.40 per share).

WM. WRIGLEY JR. COMPANY
Notes to Financial Statements

Summary of 1976 Quarterly Consolidated Results—Unaudited

	Net Sales	Cost of Sales	Income Taxes	Net Earnings	Net Earnings Per Share
First quarter	$ 86,914	43,736	7,524	7,732	1.96
Second quarter	98,833	48,186	9,466	9,223	2.35
Third quarter	95,560	48,989	7,055	7,674	1.95
Fourth quarter	88,891	44,117	5,971	6,170	1.56
Total	$370,198	185,028	30,016	30,799	7.82

Thousands are omitted from the dollar amounts except for per share comparisons.

The Company's practice is to allocate a portion of the estimated change in its year-end LIFO inventory to each quarter. The calculation of the estimated change is based upon anticipated acquisition prices, and year-end inventory quantities, which for certain raw materials are dependent on seasonal market conditions particularly during the latter part of the year. Differences between these estimates and the final actual change increased fourth quarter net earnings in 1976 and 1975 by approximately $1,800,000 and $500,000, respectively.

INVENTORY, STANDARD COST ADJUSTMENTS

TOKHEIM CORPORATION
Notes to Financial Statements

6. Quarterly Financial Information

Unaudited quarterly financial information (dollars in thousands except per share amounts) for the years 1976 and 1975 is as follows:

	Net Sales	Gross Profit	Net Earnings Amount	Net Earnings Per Share
1976				
1st Qtr.	$15,219	$ 4,723	$ 807	$ .55
2nd Qtr.	19,524	6,321	1,050	.72
3rd Qtr.	17,805	6,049	1,143	.79
4th Qtr.	17,564	7,331	1,975	1.35
	$70,112	$24,424	$4,975	$3.41
1975				
1st Qtr.	$11,519	$ 3,253	$ 383	$ .26
2nd Qtr.	15,736	4,816	847	.58
3rd Qtr.	13,827	4,388	575	.40
4th Qtr.	17,528	5,152	704	.48
	$58,610	$17,609	$2,509	$1.72

Net earnings during the fourth quarter of 1976 are approximately $556,000 ($.38 per share) higher than might otherwise be expected as a result of the Company's year-end analysis of unit standard production costs. In keeping with established practice, late in 1975, unit standard production costs expected to be incurred in 1976 were estimated, and such costs were applied to sales throughout the year. During 1976, major operational efficiencies were achieved through improved manufacturing techniques and other cost reduction programs which impacted heavily on actual unit costs. Thus, as determined late in 1976 in connection with the pricing of annual physical inventories, actual unit costs were significantly lower than the unit cost estimates. The cumulative amount of this costing differential is reflected in fourth quarter earnings.

ALTEC CORPORATION
Notes to Financial Statements

Note M—Quarterly Performance (Unaudited)

Comparison of quarterly performance for fiscal years 1976 and 1975 is as follows:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1976	1975	1976	1975	1976	1975	1976	1975
Net sales (continuing operations)	$8,983,000	$7,059,000	$8,717,000	$ 7,376,000	$9,390,000	$7,832,000	$9,480,000	$8,165,000
Gross profit (after research and development costs)	2,966,000	2,228,000	2,498,000	2,071,000	2,750,000	1,895,000	3,241,000	2,525,000
Income (loss) from continuing operations	459,000	(136,000)	37,000	(206,000)	(33,000)	(177,000)	262,000	627,000
Income (loss) from discontinued operations	27,000	305,000	—	55,000	(9,126,000)	210,000	—	(749,000)
Extraordinary item	448,000	157,000	40,000	(142,000)	(160,000)	30,000	—	460,000
Net income (loss)	$ 934,000	$ 326,000	$ 77,000	$ (293,000)	$(9,319,000)	$ 63,000	$ 262,000	$ 338,000
Per share of common stock after recognition of dividend requirements on Series B Preferred Stock								
Income (loss) from continuing operations	$.07	$(.06)	$(.01)	$(.07)	$ (.02)	$(.05)	$.04	$ .10
Income (loss) from discontinued operations	.01	.06	—	.01	(1.68)	.04	—	(.13)
Extraordinary item	.08	.03	.01	(.03)	(.03)	.01	—	.08
Net income (loss)	$.16	$ .03	$ —	$(.09)	$(1.73)	$ —	$.04	$ .05

During the fourth quarter of 1976 and 1975, the Company recorded certain year end accounting adjustments relating to inventories, etc., which if known would have been recognized throughout the year. Such adjustments amounted to $150,000 ($72,000, after recognition of tax effect) in 1976 and $200,000 ($96,000, after recognition of tax effect) in 1975. The income from continuing operations includes a gain on redemption of debentures, net of tax, of $234,000 in the first quarter of 1976 and $319,000 in the fourth quarter of 1975.

Information relating to 1975, and the first and second quarters of 1976, has been restated to give effect to the decision to dispose of the business and assets of the Econolite and Ling Electronics Divisions.

R.R. DONNELLEY & SONS COMPANY
Notes to Financial Statements

6. 1976 Interim Financial Information (Unaudited)

In the opinion of the Company, the following quarterly information for 1976 includes all adjustments (constituting only normal recurring adjustments) necessary for a fair statement of operations for such periods.

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In thousands of dollars)			
Net sales	$125,672	$130,407	$163,699	$164,709
Cost of sales, selling and administrative expenses	115,211	114,161	140,968	143,363
Earnings from operations	10,461	16,246	22,731	21,346
Other income—net	1,235	1,409	1,423	1,981
Earnings before income taxes	11,696	17,655	24,154	23,327
Provision for income taxes	5,556	8,386	11,473	9,685
Net income	$ 6,140	$ 9,269	$ 12,681	$ 13,642
Net income per common share	$ .33	$ .49	$ .68	$ .73

See Management's Discussion and Analysis of Consolidated Summary of Operations.

Management's Discussion and Analysis of Consolidated Summary of Operations

The increase in net sales for the year 1976 reflected largely the significant volume increases—especially in magazines and catalogs and tabloids—and, to a lesser extent, increases in selling prices due to the impact of inflation on material and production costs. Gross profit and earnings before income taxes also increased, but at a somewhat lower rate than sales due to slightly increased operating costs as a ratio to sales. Selling and administrative expenses increased principally as a result of general increases in salaries and other expenses. Net income in 1976 showed an increase at a rate slightly higher than the rate of increased sales due to a lower effective tax rate reflecting a portion of the effect of the donation of a building in the fourth quarter and increased investment credit amortization.

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VULCAN, INC.
Notes to Financial Statements

G. Unaudited Quarterly Summary of Operations:

An unaudited quarterly summary of operations for the year 1976 is presented below. Investment tax credits of $269,000 were recorded in the fourth quarter since substantially all of the related assets were acquired and placed in service during that quarter.

Quarter	Net Sales	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Common Share
First	$ 26,342,328	$2,359,901	$1,147,421	$ .64
Second	25,964,565	2,304,155	1,113,193	.61
Third	25,721,893	2,287,677	1,099,650	.60
Fourth	24,889,786	1,979,659	1,205,928	.65
	$102,918,572	$8,931,392	$4,566,192	$2.50

RECLASSIFICATION OF EXPENSES

MORRISON-KNUDSEN COMPANY, INC.
Notes to Financial Statements

11. Unaudited Quarterly Financial Data

The following tabulation sets forth unaudited quarterly financial data for the two years ended December 31, 1976 (in thousands of dollars except per share data):

	1976 Quarter			
	1st	2nd	3rd	4th
Revenue	$220,823	$239,939	$281,921	$231,916
Gross earnings	17,234	15,507	14,614	12,239
Net income	1,779	3,367	4,106	3,997
Earnings per share:				
Primary	$.65	$1.22	$1.50	$1.46
Fully diluted	.65	1.22	1.50	1.45
	1975 Quarter			
	1st	2nd	3rd	4th
Revenue	$207,498	$251,642	$273,750	$264,935
Gross earnings	10,655	14,645	14,584	12,682
Net income	1,731	3,270	3,666	2,056
Earnings per share:				
Primary	$.65	$1.22	$1.35	$.76
Fully diluted	.65	1.19	1.35	.76

Quarterly gross earnings for 1976 and 1975 have been restated for the reclassification of certain costs and expenses from general and administrative expense to cost of revenue. See Note 2.

Computations of earnings per share for each quarter and the annual period are independent.

SALE OF EQUIPMENT, LEASES OR PROPERTY

ADAMS-RUSSELL & CO. INC.
Notes to Financial Statements

9. Quarterly Results for Year Ended September 30, 1976 (Unaudited)

Quarter	Sales	Net Income	Earnings Per Share
First	$ 4,001,000	$125,000	$ .10
Second	4,056,000	36,000*	.03*
Third	3,916,000	194,000	.15
Fourth	3,908,500	277,600	.22
Total	$15,881,500	$632,600	$ .50

*Includes gross loss of $117,200 on sale of radio station, equivalent to $.07 per share after income tax credit.

DICTAPHONE CORPORATION
Notes to Financial Statements

Quarterly Financial Data (Unaudited)

Summarized quarterly financial data (in thousands of dollars except for per share amounts) for the year 1976 is as follows:

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31*
Net sales	$26,068	$29,072	$28,541	$48,579
Gross profit	12,750	14,209	13,790	18,263
Net income	815	1,064	880	1,415
Per share	.21	.27	.22	.35

In the three months ended June 30, 1976, the Company completed a program of selling its leases on dictating systems. Accordingly, all leases entered into after April 1, 1976 have been accounted for as sales. The sale of such leases written through March 31, 1976, which had been accounted for on a rental basis, increased income before taxes and net income for the three months ended June 30, 1976 by $438,000 and $210,000 ($.05 per share), respectively, and decreased income before taxes by $52,000 and net income by $25,000 ($.01 per share) for each of the three month periods ended September 30 and December 31, 1976.

*See Acquisition footnote in Notes to Consolidated Financial Statements

KOPPERS COMPANY, INC.
Notes to Financial Statements

13. Quarterly Financial Data (Unaudited)

Quarter Ended	Net Sales	Operating Profit	Net Income	Earnings Per Common Share
March 31, 1976	$237,182,000	$15,382,000	$14,396,000	$.59
June 30, 1976	309,538,000	33,219,000	18,706,000	.75
September 30, 1976	319,214,000	35,961,000	20,969,000	.84
December 31, 1976	323,299,000	19,303,000	12,770,000	.51

Quarterly earnings per common share do not add up to the total annual earnings per common share because of the increase in common shares outstanding during the year.

During the first quarter of 1976, net income increased by $3.9 million ($.16 per share) as the result of a special dividend from ARCO/Polymers and a portion of the capital gain realized on the sale of the Company's Brazilian thermoplastics interests.

THE LODGE & SHIPLEY COMPANY
Notes to Financial Statements

10. Unaudited 1976 Quarterly Data

	1st Qtr. (a)	2nd Qtr.	3rd Qtr.	4th Qtr.
Net sales	$6,191,990	$7,668,934	$7,099,534	$7,316,047
Cost of sales	$4,421,601	$5,172,082	$5,123,167	$5,410,717
Net income	$ 329,223	$ 575,049	$ 363,723	$ 280,225
Earnings per share	$ .10	$ .17	$ .11	$ .07

(a) Includes unusual pre-tax gain on sale of machinery and equipment and other assets of $94,900.

MEDUSA CORPORATION
Financial Review

Quarterly Operating & Per Shate Data (Unaudited)

The quarterly results for the year ended December 31, 1975 have not been subjected to a limited review by our independent accountants.

(In thousands)	Net Sales		Gross Profit		Net Earnings	
Quarter	1976	1975	1976	1975	1976	1975
1st	$ 27,411	$ 20,761	$ 2,394	$ 638	$ (1,203)	$(2,154)
2nd	56,069	46,785	11,379	7,570	4,199	1,639
3rd	70,011	58,019	16,389	10,742	6,126	3,953
4th	51,970	49,255	9,497	7,028	2,423	1,107
Year	$205,461	$174,820	$39,659	$25,978	$ 11,545	$ 4,545

	Net Earnings		Dividends Paid		Price Range High		Price Range Low	
Quarter	1976	1975	1976	1975	1976	1975	1976	1975
1st	$ (.49)	$ (.87)	$ .35	$ .35	$25⅞	$20	$17	$13
2nd	1.64	.63	.35	.35	25¾	18½	23½	15¼
3rd	2.40	1.54	.40	.35	27½	18⅞	24½	15⅝
4th	.93	.43	.40	.35	30⅝	18½	26½	15⅛
Year	$ 4.48	$ 1.73	$1.50	$1.40	30⅝	20	17	13

The 1976 third quarter results includes a loss of $842 thousand or $.33 per share from the sale of assets of a subsidiary.

TRANSCON LINES
Notes to Financial Statements

9. Unaudited Quarterly Information
The following is a summary of the unaudited quarterly results of operations for the year ended December 31, 1976:

	Quarter ended March 31	June 30	September 30	December 31
	(in thousands of dollars, except per share amounts)			
Operating revenues	$37,373	$41,273	$43,037	$43,861
Operating expenses	35,484	38,773	40,313	41,203
Other expense (income)-net	349	255	242	(117)
Income before income taxes	1,540	2,245	2,482	2,775
Income taxes	677	1,028	1,151	1,336
Net income	$ 863	$ 1,217	$ 1,331	$ 1,439
Net income per share*	$ .28	$ .39	$ .43	$ .46

*The gain from sale of property, as discussed in Note 8, occurred principally ($.07) in quarter ended December 31.

SALES TO CUSTOMERS

HY-GAIN ELECTRONICS CORPORATION
Notes to Financial Statements

1. Quarterly Results (Unaudited):
Unaudited quarterly results of the Company for the year ended August 31, 1976 are shown in the following table:

	Quarter Ended Nov. 30, 1975	Feb. 28, 1976	May 29, 1976	Aug. 31, 1976
Net sales	$18,617,986	$26,187,481	$36,158,276	$ 15,905,612
Cost of sales	10,508,202	15,108,836	20,353,060	10,129,326
	8,109,784	11,078,645	15,805,216	5,776,286
Operating costs and expenses	2,995,375	4,479,784	6,591,565	7,125,047
Earnings (loss) before income taxes	5,114,409	6,598,861	9,213,651	(1,348,761)
Income taxes	705,000	330,000	995,000	290,000
Net earnings (loss)	$ 4,409,409	$ 6,268,861	$ 8,218,651	$ (1,638,761)
Primary earnings (loss) per share	$1.41	$2.01	$2.37	$(.62)

For the fourth fiscal quarter ended August 31, 1976, net sales were $15,905,612 resulting in a net loss of $1,638,761. This compared to net sales of $15,564,561 and net earnings of $2,674,120 for the like period in 1975, and net sales and net earnings of $36,158,276 and $8,218,651, respectively, for the third fiscal quarter ended May 29, 1976.

The Company attributes the fourth quarter downturn in sales and earnings to confusion and concern among distributors, dealers and consumers as to the action of the Federal Communications Commission in approving, in July, the expansion of the number of channels allocated for Citizens Band radio from 23 to 40 channels, but delaying the date when 40-channel sets can be legally sold to January 1, 1977. The FCC action took place as heavy quantities of 23-channel sets were coming off of production lines in the United States and the Far East. Because of this confusion, dealers and distributors across the country reduced purchases, cancelled orders and returned to the manufacturers substantial quantities of 23-channel sets. Specifically, HY-GAIN distributors and dealers returned in excess of $4 million of products during the fourth quarter. Likewise, large numbers of consumers deferred CB purchases either out of concern over the utility of 23-channel sets in the face of the 40 channel expansion, or because of their desire to wait and purchase the 40-channel radios when available. This unusual combination of factors created substantial pricing pressures on CB radios and CB antennas during the three month period ended August 31, 1976, which have continued into the first quarter of fiscal 1977. HY-GAIN also had substantially larger advertising and promotional expenses in the fourth quarter of fiscal 1976 than any previous quarter, as well as higher general and administrative expenses due to expanded production facilities and personnel. These higher expenditures were committed earlier in the year in anticipation of higher sales levels. These expenses have now been adjusted to current forecast levels.

HY-GAIN is in a favorable position in terms of its finished inventory of 23-channel CB radios and those in the hands of its dealers and their customers because nearly all can be converted to 40-channel sets at HY-GAIN's own manufacturing facilities. HY-GAIN, along with other manufacturers and distributors of CB equipment, will likely experience additional price pressures until inventory levels have been reduced and dealer and consumer demand are strengthened following the January 1, 1977 effective date for the sale of 40-channel CB radios.

SALANT CORPORATION
Notes to Financial Statements

11. Quarterly Financial Information (Unaudited)

Summarized consolidated quarterly financial data (in thousands of dollars, except per share amounts) for 1976 are as follows:

	Net sales	Gross profit	Net earnings	Earnings per share
First	$ 37,626	$ 5,992	$ 886	$ .28
Second	45,516	7,153	1,179	.38
Third	53,259	7,553	1,373	.44
Fourth	56,585	6,893	1,038	.33
	$192,986	$27,591	$4,476	$1.43

The fourth quarter results include an accelerated sale of $10,666,000 of finished wearing apparel to Sears, Roebuck and Co.

THE COLUMBIA GAS SYSTEM INC.
Notes to Financial Statements

(8) Quarterly Financial Data (Unaudited)

	Quarter Ended			
	March 31, 1976*	June 30, 1976*	September 30, 1976	December 31, 1976
Operating revenues	$581,002	$332,986	$300,711	$579,988
Operating expenses	512,063	290,233	269,118	507,511
Operating income	68,939	42,753	31,593	72,477
Interest charges and other income—net	17,780	18,690	19,503	28,736
Net income	51,159	24,063	12,090	43,741
Preferred stock dividend accrual	2,776	2,777	2,776	2,776
Earnings on common stock	$ 48,383	$ 21,286	$ 9,314	$ 40,965
Earnings per share of common stock (based on average shares outstanding in each period)	$ 1.49	$ .66	$ .29	$ 1.26

*Reclassified to conform to third and fourth quarter presentation.

In the second quarter, it was necessary to adjust the reserve for estimated rate refunds to reflect a denial by the West Virginia Supreme Court of Appeals of a subsidiary's appeal regarding a rate refund ordered for the period 1972-1975 applicable to an industrial customer. The effect was to reduce operating revenues and earnings on common stock by $6,915,000 and $3,821,000 ($.12 per share), respectively.

In the fourth quarter, the annual effective tax rate increased due to a reduction in the estimated 1976 investment tax credits which resulted in a decrease in other income and earnings on common stock by $4,300,000 ($.13 per share).

Comparison of results of operations among quarters during the year may be misleading in obtaining an understanding of the trend of the Corporation's business operations since gas sales are predominately influenced by seasonal weather patterns which in turn affect earnings and related components of operating revenues and operating expenses.

GENERAL PUBLIC UTILITIES CORPORATION
Notes to Financial Statements

16. Quarterly Financial Data: (Unaudited):

The 1976 quarterly financial data shown at right is incorporated in these consolidated financial statements by reference.

Quarterly Financial Data (Unaudited)
(In thousands except per share data)

	First Quarter		Second Quarter	
	1976	1975	1976	1975
Operating Revenues	$279,085	$243,413	$256,711	$215,568
Operating Income	$ 56,583	$ 58,958	$ 43,527	$ 44,346
Net Income	$ 31,170	$ 31,526	$ 16,814	$ 18,655
Earnings Per Share	$.57	$.66	$.31	$.38
Average Shares	54,783	47,506	54,881	49,658
	Third Quarter		**Fourth Quarter**	
	1976	1975	1976	1975
Operating Revenues	$258,815	$253,957	$274,142	$241,482
Operating Income	$ 62,892	$ 60,872	$ 66,601	$ 46,436
Net Income	$ 34,755	$ 34,223	$ 38,458	$ 22,978
Earnings Per Share	$.63	$.69	$.70	$.42
Average Shares	55,030	49,793	55,179	54,666

The third and fourth quarters of 1975 and the first quarter of 1976 have been restated to give effect to the retroactive rate increases described in Note 13. The effect of such restatements resulted in increases as follows:

	(In thousands except per share data)		
	1976	1975	
	1st Qtr.	3rd Qtr.	4th Qtr.
Operating Revenues	$8,949	$4,760	$7,663
Net Income	$3,936	$3,102	$3,362
Earnings Per Share	$.07	$.06	$.07

III

FINANCIAL INFORMATION FOR THE FOURTH QUARTER

In May 1973 the AICPA Accounting Principles Board issued Opinion No. 28, "Interim Financial Reporting." Opinion No. 28 requires certain financial information for the fourth quarter to be presented in the annual financial statements of publicly traded companies that do not issue interim financial information for that quarter. In the absence of a fourth-quarter report, disposals of segments of a business and extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, as well as the aggregate effect of year-end adjustments which are material to the results of that quarter are required to be disclosed in the annual financial statements. The list of fourth-quarter data to be reported in annual financial statements was extended to include disclosure of the interim effects of an accounting change, in FASB Statement on Accounting Standards No. 3, "Reporting Accounting Changes in Interim Financial Statements," issued in December 1974.

Some companies included in NAARS disclose unaudited fourth-quarter financial information in the annual financial statements even if that information includes none of the types of unusual items described in the preceding paragraph, but other companies disclose only unusual unaudited fourth-quarter items in conformity with APB Opinion No. 28 and FASB Statement No. 3. Fourteen examples are presented of the disclosure of unaudited fourth-quarter information, classified by the nature of the unusual items, if any, disclosed.

NO UNUSUAL ITEMS

FIRST CHARTER FINANCIAL CORPORATION
Consolidated Statement of Operations

	Year ended December 31		Three months ended December 31 (unaudited)	
	1976	1975	1976	1975
Revenues				
Interest on loans	$420,955	$335,782	$115,570	$ 89,966
Loan origination fees	15,508	8,658	4,054	2,721
Other loan fees	10,057	6,919	2,698	1,776
Interest and dividends on investments	28,508	24,516	7,695	7,741
Net gain from real estate operations (Note 4)	2,674	923	1,266	366
Commissions, sundry fees and miscellaneous income	1,544	1,382	450	390
	$479,249	$378,182	$131,735	$102,961

Expenses				
Interest on savings accounts	$291,930	$236,482	$ 79,073	$ 63,705
Interest on borrowings	36,965	30,587	9,677	7,852
	$328,896	$267,070	$ 88,750	$ 71,558
General and administrative	36,993	31,507	9,595	7,995
	$365,890	$298,577	$ 98,346	$ 79,553
Earnings Before State and Federal Taxes on Income	$113,358	$ 79,604	$ 33,388	$ 23,408
California franchise taxes (Note 7)	14,300	10,094	4,023	2,765
Federal taxes on income (including $3,190,000 [1976] and $8,650,000 [1975] provision for deferred taxes) (Note 7)	27,555	19,292	7,894	5,630
Net Earnings	$ 71,503	$ 50,218	$ 21,471	$ 15,013
Allocation of Net Earnings				
Appropriated retained earnings	$ 43,204	$ 29,210		
Unappropriated retained earnings	28,299	21,007		
Net Earnings	$ 71,503	$ 50,218		
Net earnings per share (based on 29,586, 703 shares outstanding at December 31, 1976)	$2.42	$1.70	73¢	51¢

Consolidated Statement of Changes in Financial Position

	Year ended December 31		Three Months Ended December 31 (unaudited)	
	1976	1975	1976	1975
Source of Funds				
Net earnings	$ 71,503	$ 50,218	$ 21,471	$ 15,013
Depreciation and amortization, straight line method	1,576	1,389	414	357
Provision for deferred Federal taxes on income	3,190	8,650	2,440	5,650
	$ 76,270	$ 60,257	$ 24,325	$ 21,020
Net increase in savings accounts	986,533	669,394	247,876	145,134
Loan principal repayments	719,025	616,712	199,671	119,618
Net increase (decrease) in advances from Federal Home Loan Bank and other borrowings	61,876	(94,928)	(37,515)	96,200
Carrying value of properties sold	13,323	14,576	3,225	4,764
Other	4,468	(493)	5,029	1,904
	$1,861,497	$1,265,519	$442,613	$388,642
Application of Funds				
Loans originated	$1,735,638	$1,041,294	$451,367	$293,222
Loans purchased	36,217	71,069	1,609	30,579
	$1,771,856	$1,112,364	$452,976	$323,801
Net decrease (increase) in undisbursed loan funds, deferred fees and discounts on loans	3,658	35,319	(1,218)	1,459
Loans originated, adjusted for net change in undisbursed loan funds, deferred fees and discounts on loans	$1,775,514	$1,147,683	$451,757	$325,261
Additions to properties held for sale or investment	7,870	6,682	2,192	1,952
Net decrease in accounts payable and accrued expenses	6,538	41,788	21,282	26,206
Net increase (decrease) in investment in Federal Home Loan Bank stock and secondary insurance reserve	3,597	(5,388)	2,059	2,111
Net increase (decrease) in cash and United States Government and other securities	67,976	74,753	(34,679)	33,111
	$1,861,497	$1,265,519	$442,613	$388,642

HANDY DAN HOME IMPROVEMENT CENTERS, INC.
Notes to Financial Statements

9. Quarterly Results (Unaudited)

Unaudited results of operations for the fourth quarters ended August 29, 1976 and August 31, 1975 are as follows:

	1976	1975
Sales	$35,591,261	$33,859,616
Net earnings	1,277,362	797,674
Earnings per common share	.57	.35

HNC MORTGAGE AND REALTY INVESTORS
Notes to Financial Statements

Note 8—Economic Conditions and Contingencies:

• • • •

Principally as a result of the high level of non-accruing loans as well as expenses related to properties owned, the Trust sustained a net loss of $1,348,000 in its fourth quarter of 1976 (unaudited) and $198,000 in November 1976 (unaudited). It is likely that operating losses will continue until such time as there is a significant reduction in the percentage of investments in non-accrual status, or until owned properties are able to produce positive cash flow from either operations or sale of the properties and/or until the Trust's interest expense can be significantly reduced through the reduction of bank debt or a renegotiation of the stated interest rate.

M&T MORTGAGE INVESTORS
Statement of Earnings

	For the Quarter Ended August 31		For the Year Ended August 31	
	1976	1975	1976	1975
	(Unaudited)			
Income				
Interest on mortgage loans	$ 997	$ 958	3,974	$4,411
Interest on warehousing notes receivable—Note D	59	64	219	316
Commitment and other fees	11	5	54	17
	1,068	1,029	4,248	4,745
Expenses				
Interest	487	467	1,887	2,305
Advisory fee—Note D	104	100	411	416
Trustees' fees and expenses	7	4	29	22
Provision for possible loan losses	72	129	274	359
Other	17	19	86	97
	690	722	2,689	3,201
Net Earnings	378	$ 306	$1,559	$1,543
Earnings per share of Beneficial Interest—Note A	$ .25	$ .21	$ 1.05	$ 1.04

Statement of Shareholders' Equity

	For the Quarter Ended August 31		For the Year Ended August 31	
	1976	1975	1976	1975
	(Unaudited)			
Shares of Beneficial Interest				
Balance at beginning and end of period	$ 1,482	$ 1,482	$ 1,482	$ 1,482
Additional Paid-In Capital				
Balance at beginning and end of period	13,294	13,294	13,294	13,294

Undistributed Earnings				
Balance at beginning of period	412	466	387	385
Net earnings for the period	378	306	1,559	1,543
Less cash dividends paid—Note F	(385)	(385)	(1,541)	(1,541)
	405	387	405	387
Shareholders' Equity at End of Period	$15,181	$15,164	$15,181	$15,164

Statement of Changes in Financial Position

	For the Quarter Ended August 31 1976	For the Quarter Ended August 31 1975	For the Year Ended August 31 1976	For the Year Ended August 31 1975
	(Unaudited)			
Source of Funds				
From operations:				
Net earnings	$ 378	$ 306	$ 1,559	$ 1,543
Items not requiring or (providing) funds:				
Provision for possible loan losses	72	129	274	359
Charges against allowance for possible loan losses	(66)	(72)	(334)	(202)
Amortization of discounts	(123)	(108)	(482)	(418)
From Operations	260	255	1,017	1,281
Reduction of mortgage loans on real estate	14,485	13,022	51,848	42,652
Increase in notes payable to banks	708	—	1,715	—
Decrease in warehousing notes receivable	—	—	—	—
Decrease in accrued interest and other assets	12	122	152	280
Increase in accounts payable and accrued expenses	—	20	—	201
	15,467	13,421	54,734	44,416
Application of Funds				
Investments in mortgage loans on real estate	13,671	12,063	51,761	40,706
Decrease in notes payable to banks	—	508	—	1,935
Decrease in accounts payable and accrued expenses	37	—	144	—
Increase in warehousing notes receivable	1,073	230	5	115
Increase in accrued interest and other assets	—	—	—	—
Increase in real estate acquired through foreclosure	195	149	1,278	149
Cash dividends paid	385	385	1,541	1,541
	15,362	13,337	54,731	44,447
Increase (Decrease) in Cash	105	83	2	(30)
Cash at beginning of period	—	19	103	134
Cash Balance at End of Period	$ 105	$ 103	$ 105	$ 103

OSCAR MAYER & CO. INC.
Notes to Financial Statements

Fourth Quarter Results

The following table summarizes the unaudited operating results for the fourth quarter of the past two fiscal years:

	Fourth Quarter 1976 (14 weeks)	Fourth Quarter 1975 (13 weeks)
Net sales and other operating revenues	$315,761,000	$299,037,000
Cost of products sold, marketing and administrative expenses	289,767,000	284,383,000
Interest expense	888,000	932,000
	290,655,000	285,315,000
Income before income taxes	25,106,000	13,722,000
Income taxes	11,350,000	6,250,000
Net income for the period	$ 13,756,000	$ 7,472,000
Per share net income for the period	$1.44	$ .78

Sales dollars increased by 6% in the fourth quarter of 1976 reflecting an increase in sales volume partially offset by lower selling prices as a result of reduced raw material costs. Net income of the fourth quarter in 1976 was higher by 84% due to the increase in unit sales volume and to improved results in the domestic hog slaughter operations, because of the increase in hog supply.

RAINBOW RESOURCES, INC.
Notes to Financial Statements

Note 10. Unaudited Interim Financial Information
Unaudited financial information for the three months ended July 31, 1976, is as follows:

Income	$2,602,300
Income from operations	$ 785,700
Net income	$ 733,500

ZAPATA CORPORATION
Consolidated Statement of Income

	Three months ended September 30 (unaudited)		Years ended September 30	
	1976	1975	1976	1975
Revenues	$113,314	$100,632	$372,877	$350,785
Expenses				
Operating	83,928	77,523	276,979	263,364
Depreciation	7,790	6,468	29,214	22,156
Administrative	5,364	7,101	21,987	22,559
	97,082	91,092	328,180	308,079
Operating income	16,232	9,540	44,697	42,706
Other income (expense)				
Interest income	2,108	1,646	7,886	8,907
Interest expense	(12,503)	(8,503)	(39,958)	(26,118)
Interest capitalized	4,664	4,210	14,378	9,715
Minority interest	232	(185)	(22)	(189)
Other, net	(375)	385	(848)	2,479
	(5,874)	(2,447)	(18,564)	(5,206)
Income before income taxes	10,358	7,093	26,133	37,500
Provision for income taxes	(1,511)	1,082	(2,069)	(7,208)
Income before extraordinary gain	8,847	8,175	24,064	30,292
Extraordinary gain on debt exchange			8,527	
Net income	$ 8,847	$ 8,175	$ 32,591	$ 30,292

Income per common and common equivalent share				
Income before extraordinary gain	$ 1.29	$ 1.10	$ 3.47	$ 4.39
Extraordinary gain			1.25	
Net income	$ 1.29	$ 1.10	$ 4.72	$ 4.39
Income per common share assuming full dilution				
Income before extraordinary gain	$ 1.06	$ .84	$ 2.77	$ 3.25
Extraordinary gain			.95	
Net income	$ 1.06	$ .84	$ 3.72	$ 3.25

Divisional Revenues

	Three months ended September 30 (unaudited)		Years ended September 30	
	1976	1975	1976	1975
Natural resource services				
Offshore drilling	$ 28,289	$ 26,204	$100,934	$ 91,333
Marine services	7,371	7,357	29,212	23,544
Construction and dredging	31,501	39,019	103,407	129,263
Shipping	1,074		1,868	
	68,235	72,580	235,421	244,140
Natural resource products				
Copper mining	5,773	6,854	23,693	28,185
Coal mining	11,694	10,065	49,010	37,828
Fishing	27,612	11,133	64,753	40,632
	45,079	28,052	137,456	106,645
Total revenues	$113,314	$100,632	$372,877	$350,785

Divisional Operating Income

	Three months ended September 30 (unaudited)		Years ended September 30	
	1976	1975	1976	1975
Natural resource services				
Offshore drilling	$ 7,468	$ 6,385	$ 26,083	$ 24,380
Marine services	2,335	2,676	10,562	6,845
Construction and dredging	1,972	2,374	3,546	4,091
Shipping	73	(144)	(581)	(360)
	11,848	11,291	39,610	34,956
Natural resource products				
Copper mining	(397)	(425)	(1,836)	1,436
Coal mining	571	777	6,005	7,706
Fishing	5,369	108	6,940	4,528
	5,543	460	11,109	13,670
Corporate administrative expense	(1,159)	(2,211)	(6,022)	(5,920)
Total operating income	$ 16,232	$ 9,540	$ 44,697	$ 42,706

Consolidated Statement of Changes in Financial Position

	Three months ended September 30 (unaudited)		Years ended September 30	
	1976	1975	1976	1975
Source of funds				
Income before extraordinary gain	$ 8,847	$ 8,175	$ 24,064	$ 30,292
Add items not requiring funds				
Depreciation	7,790	6,468	29,214	22,156
Deferred income taxes, minority interest and other	761	984	1,516	4,924
Funds provided from operations	17,398	15,627	54,794	57,372
Extraordinary gain			8,527	
Deduct items not providing funds			(9,327)	
Funds required by extraordinary gain			(800)	
Long-term debt	43,410	110,795	93,461	207,577
Maturities of notes receivable (net)	(1,249)	(2,164)	14,641	10,890
Escrow funds under United States government Title XI construction financing (net)	21,014	(37,782)	54,092	(22,467)
Other (net)	6,107	(2,859)	6,049	11,535
	$ 86,680	$ 83,617	$222,237	$ 264,907
Application of funds				
Additions to property and equipment (net)	$ 31,312	$ 54,491	$146,376	$156,858
Reduction of debt	25,926	25,277	64,455	39,604
Investment in joint ventures	(7,835)	63	13,892	24,079
Cash dividends	806	1,040	2,704	2,246
Net assets of acquired companies				27,197
	50,209	80,871	227,427	249,984
Increase (decrease) in working capital				
Cash and temporary cash investments	40,768	14,022	10,796	20,669
Accounts receivable and current maturities of notes receivable	2,717	138	13,523	(12,904)
Inventories	(2,483)	4,932	2,866	8,256
Prepaid expenses and other current assets	(761)	713	152	(1,224)
Current maturities of long-term debt	(6,749)	(10,512)	(29,153)	(16,381)
Notes payable	(7)	1,020		8,144
Accounts payable and accrued liabilities	3,559	(20,439)	(3,224)	(4,457)
Income taxes payable	(573)	12,872	(150)	12,820
	36,471	2,746	(5,190)	14,923
	$ 86,680	$ 83,617	$222,237	$264,907

CHANGE IN ACCOUNTING ESTIMATE

CERTRON CORPORATION
Notes to Financial Statements

Note 5—Fourth Quarter Results (Unaudited):

During the year, the Company amended its long-term debt agreement as explained in Note 2. Amortization of interest from the effective date of the debt agreement resulted in the reduction of interest expense of approximately $176,000 in the current year. This entire amount was recorded as an adjustment to interest expense in the fourth quarter. Following is a summary showing the impact on earlier periods as if the adjustment had been recorded quarterly:

	As reported	As restated
For the three months ended January 31, 1976:		
Net loss	$112,000	$ 92,000
Net loss per share	.04	.03
For the six months ended April 30, 1976:		
Net loss	$184,000	$107,000
Net loss per share	.06	.04
For the nine months ended July 31, 1976:		
Net loss	$175,000	$ 46,000
Net loss per share	.06	.02

SCHOLASTIC MAGAZINES, INC.
Notes to Financial Statements

10. Fourth Quarter (Unaudited)

Historically, the company experiences fourth-quarter losses since the sale of many of its products are correlated with the school year. This year the loss amounted to $1,560,000, as compared with $1,500,000 in 1975, after giving effect to changes in estimated costs, which were less than anticipated, for inventory adjustments resulting from annual review procedures. This quarter reflects a downward adjustment of the effective tax rate to 47.9%. The amount, if any, of these adjustments which should have been reflected in the nine months ended May 31, 1976 is not determinable.

CHANGE IN ACCOUNTING PRINCIPLE

CROMPTON COMPANY, INC.
Notes to Financial Statements

Note I—Quarterly Operating Results (Unaudited):

Net income for the fourth quarter of fiscal 1976 was $922,842 ($.72 per share). The effect of the change to extend the LIFO method of inventory pricing on the results for the fourth quarter of fiscal 1976 was to decrease net income by $206,733 ($.16 per share). The effect of the change on the results for the first, second and third quarters of fiscal 1976 is as follows:

	Three Months Ended		
	January 3, 1976	April 3, 1976	July 3, 1976
Net income as originally reported	$ 4,904	$1,006,385	$2,049,018
Effect of change to LIFO method of inventory pricing	19,966	(157,210)	(140,061)
Net income as restated	$24,870	$ 849,175	$1,908,957
Per common share:			
Net income as originally reported		$.78	$1.59
Effect of change to LIFO method of inventory pricing	$ .02	(.12)	(.11)
Net income as restated	$ .02	$ .66	$1.48

See Notes A and B for additional information.

DISCONTINUED OPERATIONS

ELECTRO AUDIO DYNAMICS, INC.
Notes to Financial Statements

7. Fourth Quarter Operating Results and Discontinued Operations

The unaudited operating results for the fourth quarter ended July 31, 1976 and August 2, 1975, respectively, are as follows: net sales from continuing operations—$12,718,000 and $9,359,000, net income (loss) from continuing operations—$257,000 and $(840,000), earnings (loss) per common share from continuing operations—$.10 and $(.34).

Pursuant to a plan adopted by management during the last quarter of fiscal year 1975, the Company disposed of the assets of a subsidiary, Rembrandt Security Systems, Inc. (Rembrandt), resulting in a loss of $264,000 net of taxes. The results of operations of Rembrandt for fiscal year 1975 has been shown separately as discontinued operations.

FOREIGN EXCHANGE LOSSES

AVCO CORPORATION
Notes to Financial Statements

Fourth Quarter Results (Unaudited)

In the fourth quarter ended November 30, 1976, Avco's consolidated net earnings were $7,587,000, or $.39 per common share (after deducting dividend requirements on Avco's cumulative convertible preferred stock), compared to consolidated net earnings of $32,660,000, or $2.49 per common share, for the comparable 1975 period. Fourth quarter net earnings in 1976 included an extraordinary income tax credit of $4,126,000 ($.36 per common share) arising from the carryforward of prior years' losses, compared to an extraordinary income tax credit of $8,377,000 ($.73 per common share) for the comparable 1975 period. Fully diluted net earnings per common share in the 1976 fourth quarter were $.35, including $.26 for the extraordinary tax credit, and $1.44 and $.38 per share, respectively, for the comparable 1975 period.

The principal reasons for the lower earnings in the 1976 fourth quarter as compared to the 1975 fourth quarter were (i) unrealized losses on foreign exchange fluctuations of $21,322,000 relating to Avco's unconsolidated finance and insurance subsidiaries, resulting from declines during November 1976 in the values of Australian and Canadian currencies (see Note 1 to the consolidated financial statements for additional information) and (ii) non-recurring gains from the disposal of units aggregating $13,104,000 in 1975.

INVENTORY ADJUSTMENT

THE ARO CORPORATION
Notes to Financial Statements

8. Fourth Quarter Adjustments (Unaudited)

Year end adjustments relating principally to inventory had the effect of increasing net income for the fourth quarter by approximately $460,000 ($.25 per share) in 1976 and $440,000 ($.24 per share after adjustment for stock dividend) in 1975. It is not practicable to allocate such adjustments on a quarterly basis.

COOK PAINT AND VARNISH COMPANY
Notes to Financial Statements

Note H—Fourth Quarter Adjustment (Unaudited)

During the fourth quarter, the Company made certain accounting adjustments, primarily to inventories and cost of products sold. The adjustments resulted from physical inventory adjustments in excess of amounts provided for shrinkage and the failure to properly estimate the amount of marked down merchandise disposed of during the year. The aggregate effect of all adjustments was to reduce net income by approximately $591,000 ($.67 a share).

TAX CREDIT

COMPO INDUSTRIES, INC.
Notes to Financial Statements

Note J—Fourth Quarter Operating Results (Unaudited):

The extraordinary tax credit of $194,300 was reported in the fourth quarter, resulting in fourth quarter earnings of $282,000 ($.45 per share). Had the credit been reported as earned in prior quarters, earnings for the fourth quarter would have been $110,000 ($.18 per share).

IV

REPLACEMENT COST INFORMATION—COMPLETE DISCLOSURE

REQUIREMENTS OF ASR NO. 190

In March 1976 the U.S. Securities and Exchange Commission issued Accounting Series Release No. 190, which applies to registrants who have inventories and gross property, plant and equipment that aggregate more than $100 million and that comprise more than 10% of total assets. ASR No. 190 is effective for financial statements covering fiscal years ending on or after December 25, 1976, except that it does not apply to the mineral resource assets of companies engaged in the extractive industries prior to fiscal years ending on or after December 25, 1977, nor does it apply to the assets located outside the North American continent and the countries of the European Economic Community prior to fiscal years ending on or after December 25, 1977, provided that the historical cost and a description of any such assets excluded from the supplemental replacement cost data are disclosed.

ASR No. 190 requires disclosure in the financial statements of the estimated current replacement cost of inventories and "productive capacity" at the end of each fiscal year for which a balance sheet is required and the approximate amount of cost of sales and depreciation based on replacement cost for the two most recent full fiscal years. In addition, registrants are required to disclose the methods used in determining those amounts and to furnish any additional information of which management is aware and believes is necessary to prevent the information from being misleading. The information may be designated as "unaudited."

Four methods of calculating replacement cost are considered acceptable: indexing, direct pricing, unit pricing, and functional pricing. Unit pricing is a structured variation of direct pricing under which a building, inventory lot, or other type of asset is directly priced based upon labor, material, and overhead estimates, then divided into a unit measure—for example, replacement cost per square foot of building or per unit of inventory. Under functional pricing, the replacement cost for a processing function rather than a specific asset or asset group is calculated.

Although the Release requires the replacement cost information to be disclosed in full only in financial statements included in Form 10K, many registrants whose annual reports are included in NAARS have also included all of the required information in annual financial statements issued to shareholders. Eleven examples of that disclosure are presented in this chapter, classified according to the pricing method used that appears to be primary.

DILLINGHAM CORPORATION
Notes to Financial Statements

Replacement Cost Data (Unaudited)

The following replacement cost data supplement the information contained in the financial statements and notes previously presented. The disclosure, required by the Securities and Exchange Commission, is an attempt to display the impact that inflation has had upon certain of the Company's assets at December 31, 1976.

	Estimated Replacement Cost	Comparable Historical Cost
	(In thousands)	
Inventories, December 31, 1976	$ 73,384	$ 70,745
Rental properties and real estate, December 31, 1976:		
Rental properties, at cost	$154,193	$ 56,376
Less accumulated depreciation	59,194	21,707
	94,999	34,669
Other real estate	3,461	3,461
	$ 98,460	$ 38,130
Property, plant and equipment, December 31, 1976	$562,627	$264,440
Less accumulated depreciation	287,633	112,098
	$274,994	$152,342
Costs and operating expenses year ended December 31, 1976:		
Other than depreciation expense	$728,620	$729,697
Depreciation expense	37,247	18,467*
	$765,867	$748,164
Depreciation expense, year ended December 31, 1976 excluding amounts included in costs and operating expense	$ 894	$ 847

*Does not include $2.0 million of depreciation on assets which will not be replaced.

The replacement cost of inventories is shown to be approximately $2.6 million higher than the comparable historical cost, most of which is due to increased costs of materials and supplies consumed in the business.

The replacement cost of rental properties as shown above is estimated to be nearly $100 million higher than the comparable historical cost. Over $80 million of this increase is attributable to the higher estimated replacement cost of the Ala Moana complex in Honolulu. This complex, which was built in phases between 1959 and 1966, has a historical cost of just under $50 million and a replacement cost of about $130 million.

The replacement cost of property, plant and equipment is shown to be more than double the historical cost of equivalent productive capacity, from $264 million to about $563 million. The rapidly increasing costs of maritime vessels and construction equipment are a major part of this increase. Many of the vessels in our maritime fleet, while still in productive service, were built many years ago and their replacement at today's costs would require substantially higher expenditures. Over $150 million of the nearly $300 million difference is attributable to Maritime assets.

The following table is presented to reconcile the amounts shown in the consolidated balance sheet at December 31, 1976 with the amounts for which replacement costs are provided. Management has determined that certain assets of the Company should not be replaced, and other categories of assets such as land, construction in progress and mineral resource assets are not required to be included in this disclosure. The Company has chosen to include replacement cost data for our foreign operations, principally in Australia, New Zealand and Singapore. Information regarding the replacement costs for Pacific Norse Shipping Limited is not included above but is disclosed separately on page 59.

	Inventories	Rental Properties Gross	Rental Properties Accum. Depr.	Other Real Estate	Property, Plant and Equipment Gross	Property, Plant and Equipment Accum. Depr.
			(In thousands)			
December 31, 1976:						
Historical amounts per consolidated balance sheets	$ 77,897	$ 78,237	$ 25,026	$ 9,428	$330,032	$134,642
Less amounts for which replacement cost data is not provided:						
Assets which will not be replaced	7,152	15,463	3,319	5,967	26,019	17,955
Land	—	6,398	—	—	15,548	—
Construction in progress	—	—	—	—	16,658	—
Mineral resource assets	—	—	—	—	7,367	4,589
Historical amounts for which replacement cost data is provided	$ 70,745	$ 56,376	$ 21,707	$ 3,461	$264,440	$112,098
Replacement cost	$ 73,384	$154,193	$ 59,194	$ 3,461	$562,627	$287,633

Determination of Replacement Costs

Dillingham Corporation employes many different types of assets in the conduct of its maritime, resources, construction and property activities. Due to the diversity of the productive capacity used in these areas, different approaches to the determination of estimated replacement cost of this capacity were necessary. The basic approach taken was to identify productive capacity and then to identify the major assets making up that capacity. The replacement cost of this productive capacity was determined as described in the following paragraphs. Once the major assets were identified and their replacement costs determined, other assets were valued using a variety of techniques, including indexing and statistical sampling techniques designed to insure a reasonable number of representative assets to be priced.

In the maritime area, the principal assets employed are a large number of pieces of floating equipment, principally tugs and barges. Determination of the productive capacity of this fleet has inherent limitations because certain tugs are able to perform a wide variety of duties, including long-range ocean hauls, short-range hauls and ship assist work involving no hauling. Therefore, replacement cost for these assets was determined as if the existing fleet were replaced in kind. The Company has recently been engaged in both buying and building new tugs and other pieces of floating equipment and current replacement costs were readily available. Maritime engineers, using these current costs in conjunction with internally-developed formulae relating to carrying capacity, size, range, thrust and overall utility, were able to estimate the current replacement cost of the major elements of floating equipment.

In the resources area, LP-gas storage tanks and transportation equipment, along with various sales and distribution facilities constitute a major portion of the assets employed. Because these assets are homogenous in nature and virtually interchangeable, a unit pricing approach was used, determining the replacement cost of one type of asset (such as storage tanks) and then applying this cost to all similar assets.

Construction assets include large and costly pieces of equipment such as earth-moving machines and cranes. A direct pricing approach was found to be best for this type of asset, utilizing manufacturers' quotations for the specific asset in question. In many cases, the unit pricing approach taken in the resources area was also applicable to such categories as fleets of trucks and other like assets.

Property assets employed are somewhat unique in nature. For example, the Ala Moana Center is one of the largest in the world, and replacement of it would be an extraordinary undertaking. Replacement cost of this asset was determined by engineering personnel of the Company, utilizing their expertise acquired not only in building this asset but also in building numerous structures. Their knowledge of current prices in the construction industry is used daily, not only in working on current projects but also in bidding on new contracts.

Depreciated replacement cost was generally calculated using the ratio which estimated replacement costs bear to comparable historical costs, and applying this ratio to accumulated depreciation on a historical basis.

The replacement cost equivalent of historical costs and operating expenses other than depreciation expense was estimated (typically on a monthly or quarterly basis) by reference to current costs to replace the item being sold or expensed. There is no significant difference between estimated replacement costs and comparable historical costs.

Depreciation expense was based on the average estimated replacement cost of assets for which replacement cost values were determined, and was calculated on the straight-line method using the historical lives of the asset or equivalent productive capacity in question.

In general, the Company believes that the replacement cost of productive capacity as determined by the above methods, gives a reasonable approximation of such costs, given the inherent limitations and subjective nature of the entire project.

Management Comments

The above disclosures, which are required by the Securities and Exchange Commission for most large public companies this year, are based upon the assumption that the majority of the Company's productive capacity would be replaced at one point in time—namely December 31, 1976. This, of course, did not happen. In the past management has routinely and periodically replaced elements of productive capacity as needed, and will continue to do so in the future. At such time as the productive capacity is in fact replaced the cost may be either higher or lower but most certainly will be different from the figures shown above. Replacement in the future will also depend to a large extent upon consideration of all economic factors existing at the time. Obviously productive capacity will not be replaced unless it appears economically feasible to do so.

The Company's ability to recover, through higher prices, the increased costs of such new investments depends upon many factors including competitive pressures, and the future demand for the products and services these assets will produce. Not considered in this analysis is the quantification of the impact that several factors such as increased efficiencies, lower maintenance expenses, and higher reliability would have to reduce our costs and tend to offset, at least in part, the higher cost of new equipment. The analysis also does not include probable increases in revenues and/or sales prices which will occur as productive capacity is replaced at higher cost subject, of course, to competition and other factors. As previously mentioned, no investment in new assets is likely to be made unless it is judged to be a profitable opportunity.

There are other items that are impacted by inflation which were not included in the analysis. Examples are the effects that inflation has upon debt and taxes. To measure the impact of inflation on assets without measuring the effect on debt is to overstate the effect because inflation allows the borrower to repay today's liabilities in cheaper dollars tomorrow. Similarly, present tax laws require businesses to pay taxes on profits calculated with expenses based on historical costs for items such as depreciation. Historical cost depreciation makes no allowance for the higher cost to be incurred in replacing these assets in the future.

Because of the above limitations, no attempt should be made to arrive at a "true" net income figure by taking reported net income and changing it by the increased depreciation expense and cost of sales shown above. This calculation, while simple to perform, results in an overly-simplified (and incorrect) solution to a complex problem.

PACIFIC NORSE SHIPPING LIMITED
SUBSIDIARY OF DILLINGHAM CORPORATION
Notes to Financial Statements

11. Replacement Cost Data (Unaudited)

The Company was formed in 1974 with nine modern ships and added two ships in 1975 and two in 1976. Four more ships are scheduled for delivery in 1977. In accordance with the new requirement of the U.S. Securities and Exchange Commission, the Company has obtained estimated replacement costs of its productive capacity of thirteen vessels from shipyards engaged in building new vessels of similar capacity. Inflation in recent years has resulted in replacement costs being greater on an overall basis than the historical cost reported in the Company's financial statements. The Company believes the cost of actual replacement of productive capacity will be recovered over the estimated useful lives of the ships through changes in prices to customers. The replacement cost estimates are summarized below:

	Estimated Replacement Cost	Historical Cost
Ships, December 31, 1976	$153,800,000	$132,143,266
Less accumulated depreciation	23,516,000	14,120,432
	$130,284,000	$118,022,834
Operating expenses, year ended December 31, 1976:		
Other than depreciation expense	$ 10,544,000	$ 10,544,003
Depreciation expense	6,299,000	5,568,051
	$ 16,843,000	$ 16,112,054

Depreciation expense related to the replacement cost of existing productive capacity was calculated on the straight-line method using the historical depreciation rates times the average estimated replacement cost of productive capacity. Depreciated replacement cost at December 31, 1976 was estimated based on a 20 year life from the delivery date of each vessel.

The replacement cost of inventories would not differ materially from the historical costs.

DIRECT PRICING

UNITED TELECOMMUNICATIONS, INC.
Notes to Financial Statements

8. Replacement Cost Information (Unaudited)

General

In accordance with regulations adopted by the Securities and Exchange Commission (SEC) in 1976, United is required to disclose replacement cost data. This data has been prepared and is presented in conformity with such regulations. Replacement cost is defined by the SEC as "the lowest amount that would have to be paid in the normal course of business to obtain a new asset of equivalent operating capacity."

Presentation of Data

The most accurate estimate of the replacement cost of United's property, plant and equipment would require a total re-engineering effort. Time and cost constraints have made this approach impractical.

Imprecision is introduced in the replacement cost computations to the extent that existing plant may vary from the replacement asset. The data which is presented has been prepared with reasonable care utilizing methods which management believes minimizes imprecisions which result without a total re-engineering effort. As the development of replacement cost by any method is subjective in nature, companies within the same industry may obtain significantly different results, depending upon the assumptions and techniques utilized.

All replacements are assumed to be new equipment although some plant items may actually be replaced with salvaged plant equipment. In actual practice, the replacement of existing property, plant and equipment will take place over an extended period of time and future replacements will utilize the latest technology available at the time the replacements are made.

Using only the replacement cost data presented for the purpose of adjusting United's financial statements is inappropriate. Depreciation is only one of the items in the financial statements that will be affected by future replacements of property, plant and equipment. Future replacements would likely have a favorable impact on revenues and certain expenses, which has not been estimated. Consequently, it is not known whether earnings on a replacement cost basis would be greater or less than earnings on a historical basis.

Subject to the above considerations, the following data is presented in conformity with SEC requirements.

	Historical Cost	Estimated Replacement Cost
	(Thousands of Dollars)	
Total property, plant and equipment—12/31/76	$3,075,000	
Less: Construction in progress	105,000	
Land	17.000	
Property, plant and equipment related to discontinued operations	36,000	
Limited use assets	4,000	
Property, plant and equipment representing productive capacity	$2,913,000	$3,894,000
Less accumulated depreciation	640,000	924,000
Net property, plant and equipment included in productive capacity as defined—12/31/76	$2,273,000	$2,970,000
Depreciation expense—1976	$ 156,000	$ 208,000
Manufacturing and supply inventories (North Electric Company)—12/31/76	$ 42,000	$ 42,000
Cost of sales (North Electric Company—1976)	$ 207,000	$ 214,000

Assumptions and Methods Used in Preparation of Replacement Cost Data

Property, Plant and Equipment

In determining replacement cost of telephone plant, two principal methods were used. One method was that of direct costing. Plant items direct costed include central office equipment, large switchboards, carrier and microwave equipment, telephones, buildings, and vehicles and other work equipment.

Current market values for assets incorporating the latest available technology providing comparable productive capacity were applied to the specific asset categories.

Current cost per square foot was determined for various building categories and applied to the existing square footage basis.

The second method used in computing replacement cost was by the use of factors. Items in this category are cable, wire, poles, equipment connections, and furniture and fixtures. The replacement cost factors used were those developed for several telephone operating subsidiaries for use in local rate case proceedings. In developing a historical plant basis to which the factors were applied, retirements were assumed to be of the earliest year's additions (first-in, first-out). The factors for each class of plant were applied to the portion of the total remaining plant balance applicable to each year to determine the corresponding replacement cost amounts.

Land and telephone plant under construction were excluded from the replacement cost computation according to SEC guidelines.

Depreciation Expense

Depreciation expense for the replacement cost basis was computed on the straight-line method using the same depreciation rates that apply in computing historical depreciation expense. United computes historical depreciation expense on a straight-line basis except for North Electric Company which computes depreciation on an accelerated basis.

Accumulated depreciation was determined by applying the factors derived from the replacement cost studies to the portion of the historical accumulated depreciation relating to the corresponding asset balances for each year of addition. The historical accumulated depreciation by year of addition was determined on the basis of the weighted expired life of the related asset amounts.

Inventories

Utility materials and supplies are excluded from the determination of replacement cost because they are not consumed in the production of goods for sale.

Replacement cost of manufacturing and supply inventories was calculated by applying current unit costs to the respective units to obtain this current replacement cost. The computation of cost of sales was determined by substituting current unit costs for the historical cost of the units used in determining historical cost of sales.

19. Replacement Cost Information (Unaudited)

The Company's financial statements are on a historical cost basis. Expenditures for inventory were made during the last several months, and for plant and equipment over several decades (although 40% was acquired during the past five years). The current replacement cost of such assets substantially exceeds the historical cost, due to inflation. The impact of inflation on the Company, except in the case of fixed price shipbuilding contracts, has generally been offset by increased productivity or increased selling prices.

The purpose of this note, as stated by the Securities and Exchange Commission (SEC) is "to provide information to investors which will assist them in obtaining and understanding of the current costs of operating the business which cannot be obtained from historical cost financial statements taken alone." However, the SEC has cautioned investors and analysts against "simplistic use" of replacement cost information. In issuing that warning, the SEC stated:

> ". . . (The Commission) intentionally determined not to require disclosure of the effect on net income of calculating cost of sales and depreciation on a current replacement cost basis, both because there are substantial theoretical problems in determining an income effect and because it did not believe that users should be encouraged to convert the data into a single revised net income figure. The data are not designed to be a simple road map to the determination of 'true income.' In addition, investors must understand that, due to subjective judgment and the many different specific factual circumstances involved, the data will not be fully comparable among companies and will be subject to errors of estimation."

The following information is presented pursuant to SEC regulations and was determined in accordance with those regulations.

	Historical Cost	Replacement Cost (a)	
At December 31, 1976			
Inventories	$ 33,656,000	$ 40,122,000	(b)
Property, Plant and Equipment (exluding land)	$107,134,000	$219,856,000	(c)
Accumulated Depreciation	57,311,000	152,177,000	
	$ 49,823,000	$ 67,679,000	
For the year ended December 31, 1976			
Cost of Sales (excluding depreciation)	$220,477,000	$220,477,000	(d)
Depreciation and Amortization (including amounts applicable to cost of sales)	$ 4,619,000	$ 6,886,000	(e)

(a) Replacement cost is the lowest amount paid in the normal course of business to obtain a new asset of equivalent operating or productive capacity. Land is excluded from productive capacity because it is not consumed during the production process.

(b) Inventories were computed using methods which approximated costs for material, labor and overhead at December 31, 1976. Overhead was adjusted for depreciation on a replacement cost basis.

(c) The Company determined the type and size of buildings required for our present productive capacity and estimated costs which are representative of the type of building and geographical location. The replacement cost of machinery and equipment was principally determined from engineering estimates, manufacturer's quotes, internally published labor and material costs, and other direct price sources. The replacement cost of some of the machinery and equipment (13% of total machinery and equipment) was computed using representative indexes.

(d) Because the Company uses the LIFO method of inventory valuation for resilient inventories and most costs from shipbuilding contracts are charged to cost of sales as soon as they are incurred or purchased, the Company's historical basis cost of sales closely approximates the replacement costs of sales at the time the sales were made, except for depreciation expense which was excluded for comparative purposes. If cost savings as a result of the replacement of existing production capacity were considered, the replacement basis cost of sales (excluding depreciation) might be lower than the historical basis cost of sales.

(e) Depreciation based on the average replacement cost of productive capacity has been estimated on a straight-line basis using the same estimate of useful life and salvage value utilized in preparing the historical cost financial statements.

The usefulness of this replacement cost information should be evaluated in light of the following considerations:

- The replacement cost data presented above is not necessarily representative of the "current value" of existing inventory and productive capacity.
- Subjective judgments underlie the replacement cost information in this footnote.
- The "piecemeal" nature of the replacement cost information required in this footnote does not identify many of the factors that contribute to the effect of inflation on the Company's operations. As a result it is not practicable to determine the overall effect of inflation on the Company or to compute the effect of the replacement cost data on net income.
- The replacement cost information is based on the impractical assumption that the Company would replace the entire inventory and productive capacity at the end of its fiscal year, whether or not the funds to do so were available or such "instant" replacement was physically possible. This assumption implies that management contemplates many actions at the end of each year that it does not. Accordingly, the information should not be interpreted to indicate that the Company actually has present plans to replace its productive capacity or that actual replacement would or could take place in the manner assumed in estimating the information.
- As the Company replaces its assets, it intends to adjust its prices to cover adequately all costs, including a return on its assets employed that is consistent with its long-term objectives.

AMERICAN HOSPITAL SUPPLY COMPANY
Notes to Financial Statements

K. Estimated Replacement Cost Information (Unaudited):

Economists, government and business policy makers, investment analysts, academicians and others have been concerned that conventional financial statements presented on the basis of historical costs do not fully reflect the impact of inflation on company-reported results of operations and financial condition. As an experiment to aid in further study of accounting for the effects of inflation, the Securities and Exchange Commission has issued new rules requiring the disclosure of certain replacement cost information beginning in 1976. In compliance with these requirements, AHSC has estimated the replacement costs of inventories and plant and equipment at December 31, 1976 and the 1976 replacement costs of products and services sold and depreciation.

Various acceptable, alternative methods, which were considered appropriate in each instance, were used to estimate replacement costs and, therefore, a significant degree of comparability may not exist between the data presented and similar information reported by other companies. Furthermore, these estimates of replacement costs do not imply that the related assets will be replaced in the form and manner assumed in developing these costs, nor are these estimates intended to reflect their current market values. The replacement cost estimates do not imply that the increased costs of replacing plant and equipment would or would not be offset by increased efficiency, nor that the customary profitable relationship between AHSC's prices and costs of products and services sold will or will not continue in the future.

Replacement costs presented in the table below include information for consolidated domestic and international operations of AHSC:

	$ in millions	
	Estimated replacement costs	Comparable historical costs
December 31, 1976:		
Inventories	$273.9	$267.9
Plant and equipment:		
Buildings	$230.9	$151.1
Machinery and equipment	210.7	160.7
Furniture and fixtures	27.4	21.2
	469.0	333.0
Less accumulated depreciation	155.3	99.8
	$313.7	$233.2

Year ended December 31, 1976:		
Cost of products and services sold:		
Depreciation	$ 18.4	$ 14.0
Other	867.1	850.0
	$885.5	$864.0
Depreciation included in selling, distribution and administrative expenses	$ 7.5	$ 5.9

The following table reconciles the historical costs for which replacement cost data is presented to appropriate total historical costs as reflected in the consolidated financial statements:

	$ in millions				
	Inventories	Property, plant and equipment	Accumulated depreciation	Costs of products and services	Depreciation
Historical costs for which replacement cost is presented	$267.9	$333.0	$ 99.8	$864.0	$19.9
Land and construction in progress, at cost	—	22.6	—	—	—
Research and development	—	—	—	17.0	—
Limited use assets, adjustments and other	(3.7)	6.1	3.5	.5	.6
Totals as shown on the accompanying consolidated financial statements	$264.2	$361.7	$103.3	$881.5	$20.5

The replacement costs of purchased raw materials and finished goods were primarily derived from published vendor prices or by applying relevant indices to historical costs. The replacement costs of work in process and manufactured finished goods inventories were estimated on the basis of standard costs adjusted to reflect current material, labor, and overhead variances as well as replacement cost depreciation of plant and equipment determined on a straight-line basis.

The replacement costs of buildings were determined primarily by applying published construction cost indices to the acquisition price of the building. The remaining building estimates were determined by either professional appraisals or by estimates of current construction cost of equivalent floor space.

The replacement costs of machinery, equipment, furniture and fixtures at AHSC's domestic product distribution locations were statistically derived from the comparisons of the replacement costs with historical costs of sample items using published prices and vendor quotations. Published indices, current prices, vendor quotations and engineering estimates were also used.

Replacement costs of products sold were estimated through adjustments of historical costs for the approximate time lag between incurring inventory costs and their subsequent sale. These estimates reflect replacement cost depreciation but do not reflect any estimate for direct or indirect cost savings as the result of the assumed replacement of plant and equipment.

Estimated replacement cost depreciation was based on the average replacement costs of plant and equipment during 1976 using the straight-line method and the same lives and proportionate salvage values used in AHSC's historical cost records exclusive of the effect of previously fully depreciated plant and equipment still in use. The replacement cost depreciation effect of such fully depreciated plant and equipment using revised economic lives would have increased the corresponding total amount above by $2.5 million of which $2.2 million would have been included in cost of products and services sold.

INDEXING

RUBBERMAID INCORPORATED
Notes to Financial Statements

(12) Replacement Cost Information—Unaudited

In compliance with SEC Regulation S-X, the Company has estimated current replacement cost for certain of its assets. The information should not be interpreted to indicate that the Company has present plans to replace such assets, or that future replacement would take place in the form and manner assumed in developing these estimates. These estimates are not precise since they were determined by subjective judgments.

The replacement cost of inventories, plant and equipment as of December 31, 1976, was calculated as follows:

Inventories—Replacement cost was estimated by increasing the FIFO (first-in, first-out) value of inventories by the difference between the historical depreciation in the inventories and the estimated replacement depreciation.

Buildings and Land Improvements—Buildings were categorized as warehouse, manufacturing, or office. The current construction costs per square foot of each category consistent with type of construction and locality were multiplied by the actual square footage. Land improvements were segregated by year of initiation and multiplied by a construction cost index.

Machinery, Equipment, and Molds—The replacement costs for certain items of this group were individually estimated. The remaining items were segregated by asset category and by the year of acquisition and indexed as follows:

Category	Index
Machinery and Equipment	Wholesale price index for general purpose machinery and equipment.
Furniture and Fixtures	Wholesale price index for commercial furniture.
Trucks, Trailers and Automobiles	Wholesale price index for motor vehicles and equipment.
Molds	Internally developed index.

Plant and Equipment, Net—The assets were grouped into the above categories by year of acquisition. Their net book values, based upon historical cost, were multiplied by ratios of gross replacement cost to gross historical cost.

The replacement cost of sales and the provision for depreciation for the year ended December 31, 1976, were estimated as follows:

Cost of Sales—Replacement cost of sales was estimated by adjusting the cost of sales shown on the Statement of Earnings to reflect application of the last-in, first-out method of inventory valuation for all subsidiaries. This adjusted amount was then increased by the differences between historical and replacement depreciation applicable to the cost of sales.

Depreciation—Historical depreciation was segregated by asset category and year of acquisition, then multiplied by the respective ratios of gross replacement cost to historical replacement cost. The resulting replacement depreciation was then adjusted to average based on historical relationships.

Comparison of historical costs and estimated replacement costs are as follows:

(000 Omitted)	Historical Cost	Estimated Replacement Cost
December 31, 1976:		
Inventory per Balance Sheet	$ 27,156	—
LIFO Reserve	6,087	—
Inventories (FIFO Basis)	33,243	33,600
Plant and Equipment (Excluding Land and Construction in Progress):		
Buildings and Land Improvements	30,825	48,000
Machinery, Equipment and Molds	62,845	90,000
	93,670	138,000
Less Accumulated Depreciation	36,462	60,000
Plant and Equipment, Net	$ 57,208	78,000
Year Ended December 31, 1976:		
Cost of Sales	$122,966	125,200
Depreciation:		
Included in Cost of Sales	6,510	8,400
Other	634	800
	$ 7,144	9,200

The replacement cost data presented herein do not reflect cost savings such as the impact on direct labor, repairs and maintenance, utilities, and other indirect costs which might be gained from replacing productive capacity. The Company's estimates indicate that this effect would not be material.

CLARK EQUIPMENT COMPANY
Notes to Financial Statements

Current Replacement Cost Information (Unaudited)

This unaudited information as of December 31, 1976 and for the year 1976 contains disclosures of current replacement cost information required by the United States Securities and Exchange Commission in filings on their Form 10-K and certain other filings (in millions of dollars):

	Amounts for which replacement cost information is provided		Total of described items in historical financial statements
	At replacement cost	At historical cost	
Inventories	$394	$301	$ 375
Cost of sales (exclusive of depreciation expense)	865	860	1,005
Productive capacity (exclusive of land)—			
Cost	523	328	408
Depreciated cost	284	189	236
Depreciation expense	32	22	26

Replacement cost information is not required and therefore not provided for assets located outside the North American continent and the countries of the European Economic Community; historical cost of assets in Australia and South America is disclosed on page 14. Replacement cost of productive capacity excludes minor operations in the United States and Europe which will not be replaced.

The replacement cost information is based on estimates and judgments which are subject to a high degree of imprecision. The information is not necessarily representative of current operating costs and current costs of inventories and productive capacity.

The replacement cost of inventories is based on the Fifo method of computing inventories, which we believe approximates the replacement cost of such inventories. The replacement cost of sales is based on the Lifo method, which we believe approximates the replacement cost method of computing cost of sales.

The replacement cost of productive capacity is based on indexes of industrial production and machine tool costs applied to historical costs. The replacement cost of depreciation expense is based on the same lives used in the historical cost financial statements but on a straight line method, whereas the declining balance method is generally used in the historical statements. No consideration was given to the related effects on direct labor costs, repairs and maintenance, utility and other indirect costs as a result of the assumed replacement of productive capacity.

THE WASHINGTON POST COMPANY
Notes to Financial Statements

K. Replacement Cost Information (Unaudited)

In compliance with the rules of the Securities and Exchange Commission, the Company has estimated certain replacement cost information. The data in this note should not be interpreted to indicate that the Company has present plans to replace inventories or plant assets or that future replacement would take place in the form and manner assumed in developing these calculations. The replacement cost data presented are not necessarily the current market values of existing plant assets and inventories; rather, they are the Company's estimate of the cost of replacement that would be incurred if such assets were replaced at the end of 1976. The difference between historical and replacement cost does not represent additional book value of the Company's common stock. Furthermore, it must be recognized that, by their nature, the replacement cost data are not precise but are broad estimates predicated upon hypotheses and subjective judgments.

Estimates of the replacement cost of inventories and the plant assets of the Company as of January 2, 1977, together with estimates of the effect on "operating costs" and "depreciation and amortization of plant facilities" for the year then ended, are summarized below:

	Amounts per Consolidated Balance Sheet	Estimated Replacement Cost
Inventories		
Newspript, magazine paper, books and other materials	$ 7,000,000	$ 7,300,000
Items which would not be replaced	200,000	
	$ 7,200,000	
Plant Assets		
Buildings	$39,244,000	$ 56,000,000
Machinery, equipment and fixtures	50,801,000	105,000,000
Leasehold improvements	2,964,000	5,000,000
	93,009,000	166,000,000
Less accumulated depreciation and amortization	(43,457,000)	(80,000,000)
	49,552,000	$ 86,000,000
Amounts for which replacement cost data are not required:		
Land	7,303,000	
Construction in progress	1,898,000	
	$58,753,000	

"Operating costs and expenses" for the fiscal year 1976, if calculated on the basis of estimated inventory replacement costs, would have increased by approximately $400,000 over the $242,411,000 calculated on an historical cost basis.

"Depreciation and amortization of plant facilities" for the fiscal year 1976, if based on estimated average replacement cost, would have been approximately $9,000,000. Depreciation and amortization calculated on an historical cost basis was $5,394,000.

Replacement cost data for inventories were calculated by reference to supplier prices at the end of the fiscal year and at periodic times during the year.

Replacement cost data for plant assets were calculated using a combination of techniques: price level indices were applied to the historical cost of the assets, or current suppliers' prices and costs of construction were utilized. These techniques were applied to the assets in use or were applied to assets which the Company believes have a present likelihood of being substituted for items currently used.

Accumulated depreciation at the end of the year and the provision for depreciation for the year related to the replacement cost of plant assets were calculated using straight-line depreciation rates based on the service lives used for financial accounting purposes.

In compiling replacement cost data no assessments were made of any related effects on labor costs, repairs and maintenance, energy costs and other indirect costs as a result of the assumed replacement of plant assets, the relationship of cost changes and changes in selling prices or the difficulty and related costs (such as those relating to regulatory requirements) which might be experienced in replacing plant assets.

FUNCTIONAL PRICING

ALUMINUM COMPANY OF AMERICA
Notes to Financial Statements

N. Replacement Cost Data (Unaudited):

The following estimate of current replacement cost is presented pursuant to Rule 3-17 of S.E.C. Regulation S-X.

December 31, 1976	Historical cost	Current replacement cost
Inventories (*net of LIFO reserve of $567.2)	$ 604.3*	$1,252.8
Land (at cost)	$ 46.8	$ 46.8
Unmined minerals	42.8	174.9
Structures	1,230.4	3,324.9
Equipment	2,477.5	5,488.1
	3,797.5	9,034.7
Less, accumulated depreciation, depletion and amortization	2,024.8	5,598.1
	$1,772.7	$3,436.6
1976		
Cost of goods sold (excluding provision for depreciation and depletion)	$2,216.7	$2,226.5
Provision for depreciation and depletion	$ 191.3	$ 334.0

General Statement

The current replacement cost does not reflect the current value of the assets or the amount for which they could be sold. The information is based on the hypothetical assumption that the company would replace its entire inventory and productive capacity at December 31, 1976, whether or not the funds were available or such "instant" replacement was physically possible. Plants and equipment, in actuality, are replaced over many years and, in many cases, will be accomplished by rebuilding existing assets. The company expects that substantial operating cost reductions would result from replacement, which are not reflected in the above data. Also, when competition and regulatory conditions permit, the company would expect to modify selling prices to recognize future cost changes. Therefore, the company cautions against any simplistic use of this replacement cost data because it does not take into account these important factors. Also, because of the many subjective judgments that had to be made and the many different circumstances involved, the data will not be comparable to that of other companies, even those in the same industry.

Methodology

The estimated current replacement cost of inventories at December 31, 1976 was calculated by indexing the elements of costs carried in inventory utilizing existing equipment and technology, and where applicable, latest purchase prices.

Land and construction work in progress have not been stated at current replacement cost because they are excluded from the requirements.

All foreign consolidated companies and mineral resource assets have been included, although the inclusion of this information is optional for the first year. Foreign mining rights were treated as intangibles.

The company expects that if it were to replace its mining, smelting and refining capacity, it would use the latest proven technology. Accordingly, a replacement cost per unit of output was developed for these facilities utilizing this technology based on direct price estimates and economical unit sizes.

The company's fabricating facilities have been evaluated and, where improvements are available, replacement cost was based on engineering estimates using current technology. Published indices were used to estimate the balance (about half) of the fabricating facilities and the small specialty plants.

Pollution control facilities which would be needed at certain of the older plants to meet the more stringent environmental regulations expected to be in effect through 1979 are included where this information is known by the company.

Cost of goods sold does not include depreciation; therefore, adjustment was made only for the cost of replacing inventories consumed. Management believes that these estimates approximate the replacement cost of goods sold as the sales were made using existing equipment and technology. No attempt was made to recognize any operating savings resulting from replacement of assets.

Depreciation was computed by the straight-line method, based on the estimated average replacement cost of productive capacity. Estimated useful lives were the same as those used for historical purposes. Therefore, no depreciation is included on fully depreciated assets.

Replacement cost data for API has not been presented since it does not intend to replace its principal assets in their present form. To the extent any new funds are invested by API or to the extent any sale proceeds are reinvested, it is the company's intent to use those funds in whatever segment of the real estate business appears to be the most profitable at that time.

14. Replacement Costs (Unaudited)

In order to give investors some understanding of the impact of inflation on the operations and financial status of corporations, the Securities and Exchange Commission now requires that large, publicly held companies provide estimates for the effect on financial statements of the current replacement cost of inventories and productive capacity.

Koppers management has consistently recognized that financial statements in the Company's reports to shareholders, which are based on historical costs, do not reflect the effects of inflation. It should be recognized, however, that there are limitations upon the usefulness of the replacement cost information that follows. The required information is not precise and does not give a complete or balanced presentation of the impact of inflation. It does not necessarily reflect management's intent to replace existing inventory or productive facilities. Neither does it reflect any operating cost savings that can result from replacement of existing production facilities with assets of improved technology or of higher productivity.

Management strongly concurs with the SEC's intention that the following replacement cost data not be used to indicate the effect of inflation upon the Company's net income. Simplistic use of the data to restate net income could be greatly misleading. Because of the many unresolved conceptual problems involved, the Company has not attempted to quantify the total impact of inflation. Further, consideration of the following replacement cost information alone does not recognize the customary relationship between cost changes and changes in selling price to maintain profit margins. Competitive conditions permitting, the Company expects to modify its future selling prices to recognize cost changes.

The following section presents the replacement cost information required by the SEC. The final section discloses the methodology used to compute the estimates.

	($ Thousands)	
	Historical Cost From 1976 Balance Sheet	Estimated Replacement Cost
If the Company were to toally replace its year-end 1976 inventories, how much would it cost?		
Inventories, as of 12/31/76	$157,554	$ 214,000
What would 1976 cost of sales have been if the replacement cost of the inventory used at the time of sale had been the basis for determining production costs?		
Cost of sales, (excluding depreciation) for the year ended 12/31/76	$919,954	$ 921,000
What would it have cost at year-end 1976 to replace the Company's productive capacity (its fixed assets)?		
Machinery, equipment and buildings	$522,265	$1,092,000
What would have been the depreciated cost of those assets?		
Less accumulated depreciation	256,369	687,000
	$265,896	$ 405,000
What would 1976 depreciation expense have been if it had been calculated using the average replacement cost of productive capacity?		
Depreciation, for the year ended 12/31/76	$ 35,198	$ 75,000

The Company cautions that the above replacement cost data are not the current value of existing property, plant, equipment and inventories. Rather, they represent the Company's estimates of the costs of replacement that would have been incurred at December 31, 1976 under the hypothetical assumption that such assets had been replaced in total at that time. Accordingly, the difference between the historical cost and replacement cost does not represent additional book value of the Company's common stock.

Methodology

Inventories

The estimated replacement cost of raw materials has been based on standard cost which approximates current cost. Finished goods and work-in-process have been estimated on the basis of standard costs that approximate current costs and include current material, labor, and overhead variances as well as an allocation of replacement cost depreciation of buildings, machinery and equipment determined on a straight-line basis.

Cost of Sales

For those inventories accounted for on a last-in, first-out (LIFO) basis, estimated replacement cost of sales, exclusive of depreciation, was based on applying the LIFO method of costing ending inventories adjusted for any decrements during the year. The turnover rate of inventories accounted for on a first-in, first-out (FIFO) basis is fast enough to approximate replacement cost. No attempt has been made to quantify the effects of improved efficiency or reduced operating costs that might occur if manufacturing facilities were replaced.

Property, Plant and Equipment

The estimated replacement costs for approximately 80-85% of the Company's property, plant and equipment were developed on a functional pricing basis. This utilized updated costs of recent applications of present-day technology. The estimated costs of replacing the remaining 15-20% of total assets, where there has been little or no significant technological obsolescence over the years, were appropriately indexed by year of acquisition at then current price levels.

Replacement cost data have not been provided for mineral reserves, as they are specifically excluded by the SEC from this determination. Depletion expense for mineral reserves is not required to be calculated on a replacement cost basis. Therefore, in accordance with current guidelines, depletion expense has been included in the replacement cost data for inventories and cost of sales at the historical cost amount.

In addition, no replacement cost information has been provided for land, as it is not consumed in the production process. No replacement cost data have been given for timber obtained under long-term Crown leases (Canada) or long-term cutting rights agreements (United States), as current costs for timber removed are matched against current revenue from the sale of such timber.

	($ Thousands)	
	Fixed Assets	Accumulated Depreciation and Depletion
Totals as shown in the accompanying Consolidated Financial Statements	$570,552	$265,355
Less amounts for which replacement cost data have not been provided:		
Mineral reserves	$ 13,063	2,016
Depletable timber properties	21,242	6,970
Land at cost	13,982	—
Historical amounts for which replacement cost data have been provided	$522,265	$256,369

Accumulated depreciation of productive capacity at year end and the provision for depreciation for the year related to the replacement cost of such assets were calculated using straight-line depreciation rates based upon the estimated service lives and salvage values used for financial accounting purposes. This was computed by applying a general or specific index to year-end historical cost balances for cost and accumulated depreciation and then recomputing a ratio of accumulated depreciation to historical cost.

WISCONSIN PUBLIC SERVICE CORPORATION
Notes to Financial Statements

(7) Certain Replacement Cost Data (Unaudited):

The following sets forth the estimated replacement cost of the productive capacity of the Company. The estimated replacement cost information should not be interpreted to mean the Company will actually replace such assets or that actual replacement would take place in the form and manner assumed in developing these estimates. In addition, it must be recognized that, by nature, this replacement cost data is imprecise and predicated upon certain assumptions and subjective judgments of management, some of which are described below. Further, the estimated replacement cost data is for information purposes only and should not be used to adjust the historical financial statements. It does not reflect the basis upon which rates are determined since under the current rate-making process, capital recovery and return are limited to amounts based on historical (original) cost. The Company cautions that these replacement cost estimates are not necessarily indicative of the current value of utility plant and should not be considered to be indicative of future capital requirements of the Company or the manner in which such requirements might be financed. Additionally, no recognition has been given in developing replacement cost estimates herein to improved efficiency or reduced operating costs which might occur if existing production capacity were replaced with capacity giving effect to newer technological developments.

	Estimated Replacement Cost	Comparable Historical Cost as Reported in the Financial Statements
	(in thousands)	
At December 31, 1976—		
Utility plant in service		
Electric (a)	$1,072,756	$497,346
Gas (a)	165,491	91,362
Accumulated provision for depreciation (b)	354,412	147,006
Net utility plant (a) (b)	$ 883,835	$441,702
For the year ended December 31, 1976—		
Straight-line depreciation expense (c)	$ 44,809	$ 23,229

(a) Land, land rights, intangible plant and property held for future use are not reflected in replacement cost data because they are not defined as productive capacity. Historical cost excludes land, land rights, intangible plant and property held for future use of $10,709,000 and $513,000 for electric and gas utility plant, respectively.

(b) Historical accumulated provision for depreciation excludes amounts of $52,228,000 equivalent to the estimated effect on federal and state income taxes of the use of liberalized depreciation and $285,000 for depreciation on land and land rights. See Note (1)(b) for a discussion of these items.

(c) Includes depreciation expense charged to clearing accounts.

(d) Nuclear fuel, its related amortization reserves and amortization expense are not included in the computation of replacement cost because of the relatively short life of nuclear fuel and the recovery of the investment through the fuel adjustment clause. Replacement cost data relating to fuel inventories and fuel expenses have not been included in this analysis since the recovery of the amount invested is permitted through the operation of the fuel adjustment clause. Materials and supplies are an immaterial part of the total assets of the Company and therefore were not included in the computation of replacement cost.

The estimated replacement cost of the electric production property was determined by applying the current cost per megawatt of each different type of electric production property to the total generating capacity of such electric production property which management currently estimates would replace the existing capacity. Such current cost per megawatt was determined based upon engineering estimates, as well as the estimated cost per megawatt of similar plants presently planned or under construction. This approach assumes that the estimated cost of such plants presently planned or under construction would approximate replacement cost. The estimated replacement cost of hydro production property was determined by using the Handy-Whitman Index.

The estimated replacement cost of electric transmission and distribution property and of gas distribution property was determined by applying the average current cost, where available, to install one unit of such property to the total number of such units of property in service. This approach assumes that the cost of recently installed units of property is approximately the same as the current replacement cost. For such property for which no current cost to install was readily available, estimated replacement cost was determined by applying the Handy-Whitman Index of Public Utility

Construction Cost to the property in service. This approach assumes that the trended original cost of such property would be approximately the same as current replacement cost. In addition, the Company has assumed that its gas distribution property will be replaced only as required and therefore in a manner compatible with the existing system.

The estimated replacement cost for the remaining electric general plant and gas general plant was determined by applying a cost index factor derived from the Marshall Valuation Service.

The replacement cost estimate of the accumulated provision for depreciation was determined by computing the historical ratio of such straight-line accumulated provision for depreciation, by plant account, to the historical cost of plant in service, by plant account. The resulting ratio was applied to the gross replacement cost by plant account.

Estimated straight-line depreciation expense replacement cost was determined by applying the current certified depreciation rate by plant account to the average estimated replacement cost by plant account.

V

REPLACEMENT COST INFORMATION—LIMITED DISCLOSURE

The SEC does not require all the information disclosed under ASR No. 190 in 10-K financial statements to be disclosed in financial statements issued to shareholders. Disclosure in shareholders' statements can be limited to a generalized description of the impact of changes in the prices of specific goods and services on the registrant and a reference to the replacement cost information contained in Form 10-K. No quantitative data need be furnished.

Nineteen examples are presented of the disclosure of limited information on replacement cost that is unaudited. The examples are classified according to whether replacement-cost amounts were or were not disclosed.

AMOUNTS DISCLOSED

ABBOTT LABORATORIES
Notes to Financial Statements

Note 13/Estimated Replacement Cost Information (Unaudited)

The Securities and Exchange Commission requires that the Company's Annual Report and Form 10-K contain certain estimated replacement cost information for inventories, productive capacity (buildings and equipment) and related depreciation and amortization, and their effect on the Company's cost of products sold. These requirements do not deal with all effects of inflation on the financial position and results of operations of the Company, nor with the current value of all assets and liabilities. They also do not deal with the probabilities of selling price adjustments and possible tax impacts if such costs were used as a basis for business decisions. Because of these limitations and the many subjective judgments required to compute this data, as well as the other qualifying factors discussed below and in more detailed in the 10-K, the estimated replacement cost information shown below cannot and should not be used to impute the effects of inflation on the net earnings of the Company

	Reported Historical Amounts	Estimated Replacement Cost (Unaudited)
At December 31, 1976—		
Inventories	$225,764,000	$238,858,000
Buildings and equipment	$444,873,000	$786,756,000
Less—accumulated depreciation and amortization	174,191,000	362,183,000
Net buildings and equipment	$270,682,000	$424,573,000
For the year ended December 31, 1976—		
Cost of products sold, including applicable depreciation and amortization	$614,461,000	$626,861,000
Depreciation and amortization:		
Included in cost of products sold	$ 20,789,000	$ 30,569,000
Included in other costs and expenses	5,728,000	8,560,000
Total depreciation and amortization	$ 26,517,000	$ 39,129,000

If existing property and equipment were completely replaced as assumed in this computation (which the Company has no intention of doing) it is the judgment of management that the increases in depreciation costs could be significantly offset by cost reductions resulting from improved technology and productivity.

APCO OIL CORPORATION
Notes to Financial Statements

(15) Replacement Cost Information (Unaudited)

The Securities and Exchange Commission has issued Accounting Series Release 190 which requires disclosure of certain replacement cost data relating to productive capacity, inventories and cost of sales. The purpose of the disclosure of this information is to provide estimated data about the impact of changes in the prices of goods and services which will be helpful to investors in developing an understanding of the current operations of any firm in an inflationary economy.

Considering the plans to liquidate the Company (see note 14), and consequently the Company's intention not to maintain its productive capacity beyond the economic lives of the existing assets, data with respect to the replacement cost of productive capacity and depreciation expense applicable thereto has not been presented.

Set forth below is an analysis of management's estimates of the replacement cost of inventories (excluding material and supplies inventories of $2,891,000 which are maintained to service productive capacity) and cost of sales determined on a replacement cost basis. Comparable related historical amounts included in the Consolidated Balance Sheets and Statements of Operations are also included for informational purposes.

	Estimated Replacement Cost	Comparable Reported Amounts
Crude oil and refined products inventories	$ 42,210,000	$ 30,813,000
Cost of sales (excluding $6,554,000 applicable to mineral resource operations)	$256,507,000	$256,507,000

The replacement cost of inventories was determined by using December 1976 acquisition costs of crude oil and blending products to value the volumes of crude oil in storage as well as equivalent volumes of crude oil and blending products included in refined products, and the use of current costs of labor, materials and other components of manufacturing expense included in refined products inventories. It is expected that net realizable values for substantially all of these inventories will be in excess of replacement values included herein.

Replacement cost data for cost of sales was calculated on the basis of replacement cost of refined products inventories and estimated by use of the last-in, first-out method of costing inventories sold. Based on studies made by management, the use of the LIFO method for determining replacement cost data provides a reasonable approximation of replacement cost at time of sale. The estimated replacement cost of sales represents the cost of refined products inventories sold as if produced by the Company's presently existing productive capacity. No adjustment is made for replacement cost depreciation since replacement cost of productive capacity is excluded from this presentation.

It should be understood that the nature of the replacement cost data disclosed above is imprecise and based upon subjective judgments of management and certain assumptions. Additionally, since no assumptions were made with respect to changes in productive capacity, no effect has been given to technological improvements and potential efficiencies which might result therefrom or changes in various cost elements such as direct labor, repairs and maintenance, utility and other indirect costs. Additional information with respect to replacement cost data appears in the Company's Form 10-K filed with the Securities and Exchange Commission.

A.B. DICK COMPANY
Notes to Financial Statements

11. Unaudited Replacement Cost Information

The Securities and Exchange Commission requires that the Company furnish estimated replacement costs versus historical costs on certain assets at December 31, 1976 and the related depreciation, and cost of sales effects on operations for the year then ended.

The following estimates are submitted pursuant to this requirement. Additional information is contained in the Form 10-K report filed with the SEC.

At December 31, 1976	Historical Cost	Estimated Replacement Cost
Inventories	$ 63,536,000	$ 75,057,000
Net property, plant and equipment	37,185,000	55,445,000
Net rental equipment	11,438,000	15,204,000
For the year ended December 31, 1976		
Cost of sales (including applicable depreciation)	$184,274,000	$185,798,000
Depreciation:		
Property, plant and equipment	$ 5,386,000	$ 7,101,000
Rental assets	6,057,000	5,354,000
Total	$ 11,443,000	$ 12,455,000

These replacement cost estimates do not necessarily represent actual current values nor are they indicative of management's intention to replace the assets. No attempt has been made to re-engineer the entire productive and distributive capacity of the Company. Additional studies in this regard might significantly alter the estimated replacement values shown above after taking into consideration potential efficiency improvements and a more precise determination of actual current costs for each item to be replaced. For these reasons, these replacement cost estimates are not necessarily indicative of future cost levels, and the impact of inflation on selling prices, operating results and capital requirements.

The replacement costs shown for property, plant and equipment and rental assets were calculated by applying certain indexes to historical costs. These indexes were derived from published government data and engineering studies by private organizations. The replacement cost estimates so derived were adjusted, where appropriate, based on internal evaluations, so that the results appear generally reasonable in light of current production and construction cost levels. The Company uses accelerated methods in arriving at depreciation charges on rental equipment. The estimated depreciation charges for rental equipment on a replacement cost basis are lower due to the use of straight line depreciation as required by the SEC guidelines.

Replacement cost inventories were calculated using cost estimates prevailing during the latest production or procurement cycle. International inventories have been translated from local currencies at exchange rates effective at year-end.

In 1974, the Company adopted the LIFO method of inventory valuation with respect to the majority of its domestic inventories. Consequently, the adjusted cost of sales using replacement cost estimates are not significantly different than the historical cost method employed by the Company.

THE DOW CHEMICAL COMPANY
Notes to Financial Statements

O. Estimated Replacement Cost (Unaudited)

The relatively high rates of inflation experienced worldwide in recent years has focused attention on the propriety of using historical cost as the basis for valuation of assets and liabilities and for determination of income from operations. A number of government and independent bodies are considering the need for appropriate alternatives. To date, no single method has earned general acceptance as a satisfactory alternate.

The Securities and Exchange Commission has mandated that beginning in 1976 certain companies must submit as a part of their annual reports to the Commission selected items of information stated on the basis of estimated replacement costs, which include depreciation calculated under straight-line methods. A summary of that information, along with a comparison to historical cost, is presented in the following table:

	Estimated Replacement Cost	Historical Cost
	(In millions)	
As of December 31, 1976:		
Inventories	$1,338	$ 999
Plant Properties, less accumulated depreciation	4,907	3,554
For the year ended December 31, 1976:		
Depreciation	449	404
Other operating expenses	4,171	4,161

The Company concurs with the objectives of identifying and disclosing the effects of inflation on operating results. While these required estimates and disclosures are quite limited in scope and do not portend to show the total impact of inflation, management, nevertheless, feels they are useful as approximations pending development of more comprehensive inflation accounting techniques. In the use of these estimates, then, due allowance should be made for their inherent lack of precision.

A more comprehensive analysis of replacement cost data, along with an explanation of the methods and assumptions used in its preparation may be found in Form 10-K, Annual Report to the Securities and Exchange Commission. A copy of that report is available upon written request to the Secretary of the Company, 2030 Dow Center, Midland, Michigan 48640.

ILLINOIS TOOL WORKS INC.
Notes to Financial Statements

Supplemental Unaudited Replacement Cost Information:

Using guidelines established by the Securities and Exchange Commission, the Company has estimated the replacement cost of inventories and plant and equipment as of December 31, 1976, and the related effect of such costs on cost of sales and depreciation expense for the year 1976.

The parent company's inventories (approximately 69% of total inventories) are computed under the last-in, first-out (LIFO) method. Under LIFO, current costs are charged to cost of sales and as a result reported cost of sales for 1976 is not materially different from a replacement cost basis.

The cumulative effect of inflation results in a higher current replacement cost for existing plant and equipment than the historical cost reflected in the Statement of Financial Position. In estimating replacement costs, these inflationary increases have been partially offset by technological improvements and design changes which often result in improved productivity of the replacement assets. Following the prescribed Securities and Exchange Commission guidelines, depreciation expense under the replacement cost method is estimated to be approximately $1,800,000 (before income tax) higher than reported for 1976.

The replacement of present productive capacity with new productive capacity, as represented by the replacement cost concept, would be expected to result in greater operating efficiencies and associated cost savings.

For additional quantitative information with respect to the estimated replacement cost of inventories and plant and equipment as of December 31, 1976, and their estimated effect on cost of sales and depreciation expense, reference should be made to the Company's 1976 Annual Report (Form 10-K) to be filed with the Securities and Exchange Commission, a copy of which will be available on request.

LOUISVILLE GAS AND ELECTRIC COMPANY
Notes to Financial Statements

10. Certain Replacement Cost Data (Unaudited)

The following table compares utility plant, stated at original cost, as shown on the balance sheet of the Company and its subsidiary at December 31, 1976, with the estimated cost to replace such plant at that date. The table also compares the reserve for depreciation as shown on the balance sheet with an estimate of accumulated depreciation applicable to such replacement costs.

	At Original Cost (thousands of $)	At Replacement Cost (thousands of $)
Utility plant	$815,269	$1,544,664
Accumulated depreciation	219,959	467,890
Net utility plant	$595,310	$1,076,774

The Company cautions that replacement cost is not the current value of existing utility plant; it is only an estimate of the cost that would be incurred if such plant were replaced at December 31, 1976. In addition, it must be recognized that the estimate is, by nature, imprecise and predicated upon certain assumptions and subjective judgments. Furthermore, while disclosure of replacement cost is a requirement of the Securities and Exchange Commission, the Company is required by the Uniform Systems of Accounts prescribed by the Public Service Commission of Kentucky and by the Federal Power Commission to report its utility plant at original cost.

Depreciation expense as shown on the statement of income of the Company and its subsidiary for the year ended December 31, 1976, amounted to $19,740,050; depreciation expense, computed on the estimated replacement cost of depreciable plant averaged for the year, would have amounted to $41,297,000.

Reference is made to the Company's Annual Report on Form 10-K to the Securities and Exchange Commission, which will be filed on or about March 31, 1977, for additional information with respect to the estimated replacement cost of utility plant, fuel inventories, and gas inventories at December 31, 1976, and the related estimated amounts of depreciation expense, fuel expense, and gas supply expenses stated on a replacement cost basis for the year then ended.

ZENITH RADIO CORPORATION
Notes to Financial Statements

11. Replacement Cost (Unaudited):

In compliance with rules adopted by the Securities and Exchange Commission in 1976, the Company has estimated certain replacement cost information for inventories, property, plant and equipment, cost of sales and depreciation. The 1976 replacement cost amounts, together with a brief description of the method used in their calculation, are set forth in the Financial Review section on page 11, and that replacement cost data is incorporated as part of these consolidated financial statements. Reference is made to Zenith's Annual Report Form 10-K for a more complete presentation of this data.

Financial Review

Replacement Cost

In compliance with rules adopted by the Securities and Exchange Commission in 1976, Zenith has estimated certain replacement cost information for fixed assets, depreciation, inventories and cost of sales.

The table below summarizes historical and replacement cost information for fixed assets, excluding land and fixed assets in Taiwan and Switzerland. The replacement costs were determined principally by the use of external indices.

Fixed Assets and Depreciation
(in millions of dollars)

	Cost at 12/31/76		Increase	
	Historical	Replacement	Amount	Percent
Gross fixed assets	$263	$419	$156	59%
Net fixed assets	129	222	93	72
Depreciation for 1976	16	23	7	44

Replacement cost of net fixed assets exceeds the historical cost by 72%, while the replacement cost of gross fixed assets exceeds historical cost by 59%. The difference results from the application of straight-line depreciation for replacement cost purposes, while accelerated depreciation has been applied in the historical cost records to certain assets, as is described in Note 1 to the Financial Statements. The replacement value shown is not necessarily representative of the amounts for which the assets could be sold because of their special purpose use. No replacement of a major facility is presently planned.

Replacement costs of inventories at year-end 1976 are separated in the following table. For inventories maintained on the last-in, first-out method (LIFO), the replacement cost is essentially the first-in, first-out (FIFO) cost shown in Note 3 to the Financial Statements, excluding the reserves for reductions to market value. Cost of sales on a replacement cost basis excludes the increase in depreciation shown in the preceding table and includes higher replacement costs on goods historically valued at FIFO. No adjustments have been made for inventories in Taiwan or Switzerland; those inventories and applicable cost of sales are excluded from the table at the top of the next column.

Inventory and Cost of Sales
(in millions of dollars)

	Cost at 12/31/76		Increase	
	Historical	Replacement	Amount	Percent
Inventory				
LIFO	$137	$150	$13	9%
FIFO	19	19	—	—
Total	$156	$169	$13	8%
Cost of sales for 1976	$747	$750	$ 3	—%

ALPHA PORTLAND INDUSTRIES, INC.
Notes to Financial Statements

7. Replacement Costs (Unaudited)

The Company, like other companies and individuals, is affected by inflation. Its most direct effect is to increase the Company's costs of operations.

The Company establishes the sales prices of its services and products primarily on the basis of competitive market conditions, rather than directly on costs incurred. Consequently, the impact on the Company's earnings of increased costs arising from inflation is not readily determinable.

A quantitative estimate of year-end 1976 replacement costs of productive capacity and the approximate effect which replacement costs would have had on the computation of depreciation expense during the year is contained in the Company's Form 10-K Annual Report for 1976 to the Securities and Exchange Commission, a copy of which may be obtained by written request to the Company.

COLGATE-PALMOLIVE COMPANY
Notes to Financial Statements

13. Impact of Inflation (Unaudited):

The Company's products and services are subject in varying degrees to the inflationary pressures affecting the general economy and the goods and services purchased by the Company. In 1976, inflationary cost increases have been generally offset by increases in the selling prices for various Company products and by cost control and reduction programs.

Replacement of existing plant and equipment and related depreciation has been affected by the cumulative impact of inflation over the years. However, such inflationary increases have been partially offset by technological improvements, design changes and operating efficiencies which often result in increasing the productivity of the newer asset addition and lower production costs.

Reference is made to the Annual Report, Form 10-K (a copy of which is available on request) for additional information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1976, and the related estimated effect of such costs on cost of sales and depreciation expense for the year then ended.

CROUSE-HINDS COMPANY
Notes to Financial Statements

8. Asset Replacement Costs (Unaudited)

The impact of inflation on the Company's production costs has generally been greater than the corresponding change in the general price level. However, the Company has historically been able to compensate for cost increases by increasing sales prices in an amount sufficient to maintain an approximately constant gross profit percentage on sales. For many years, the Company has used the LIFO method of determining cost for a substantial portion of its inventories. The LIFO method matches current costs with current revenues in the statement of income and reduces the effect of inflationary cost increases on inventory.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required to purchase the assets which are being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of these assets. The Company's experience has been that this additional capital investment on a continuing basis generally results in efficiencies, such as a reduction in required direct labor per unit of produced output.

The Company's annual report on Form 10-K (a copy of which is available to our shareholders without charge) contains specific information with respect to year-end 1976 replacement cost of inventories and productive capacity (generally buildings, machinery, and equipment) and the approximate effect which application of the replacement cost accounting procedure would have had on the computation of cost of sales and depreciation expense for the year.

DUQUESNE LIGHT COMPANY
Notes to Financial Statements

10. Replacement Cost Information (Unaudited)

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's financial statements. The Company is subject to the jurisdiction of the Pennsylvania PUC in the determination of fair rates of return on its investment in utility plant. Under current ratemaking policy, the Company recovers, through future depreciation charges, the historical dollars invested in productive capacity.

In compliance with reporting requirements of the Securities and Exchange Commission, certain replacement cost information regarding productive capacity and related depreciation is disclosed in the Company's 1976 Annual Report on Form 10-K to the Securities and Exchange Commission. A copy of the Company's Form 10-K is available upon request.

THE FOXBORO COMPANY
Notes to Financial Statements

Note 14—Asset Replacement Cost (Unaudited)

During 1976, the Securities and Exchange Commission issued a release requiring some companies to provide certain information relating to replacement cost of inventories and fixed assets and the related impact of these costs on cost of sales and depreciation expense. The Company has historically been able to compensate for cost increases through increases in productivity and selling prices. The cost of replacing LIFO inventories and plant and equipment with equivalent productive capacity would reflect the cumulative impact of inflation upon these assets and would be substantially in excess of the historical costs reflected in the accompanying balance sheet. The Company's annual report to the Commission, Form 10K, is available upon request and will contain more specific information on these subjects. It is management's view that the replacement cost data presented therein cannot be used to assess the total effect of inflation on reported results of operations.

THE GILLETTE COMPANY
Notes to Financial Statements

Current Replacement Cost Information (Unaudited)

In compliance with rules of the Securities and Exchange Commission, the Company will include in its annual report on Form 10-K certain estimated replacement cost information for inventories, cost of sales, plant and equipment, and depreciation.

For a general description of the effect of inflation on the Company's business, see page 29.

Page 29

Inflation

Rates of inflation in the United States and foreign countries, although generally lower than in the preceding year, continued at high levels in 1976. Inflationary increases affected manufacturing costs—primarily direct labor, purchased material and overhead expenses. In addition to mitigating the effects of inflation with cost savings programs, the Company follows a policy of adjusting selling prices, where regulatory and competitive conditions permit, to maintain or improve profitability.

The Company's additions to plant and equipment are primarily for expansion and cost reduction. Through maintenance programs and periodic major overhauls, the operating life of most manufacturing equipment is extended. When replacement becomes necessary, it is at a higher cost due to inflation and technological improvements. To a great extent, these inflationary increases are offset by the improved productivity of the new machinery. Since Gillette is not capital intensive and replaces only a small portion of its existing plant and equipment each year, inflationary cost increases for capital replacement are not considered to be of major importance to the Company.

The Company's annual report on Form 10-K will include certain estimated replacement cost information for inventories, cost of sales, plant and equipment, and depreciation.

INTERSTATE BRANDS CORPORATION
Notes to Financial Statements

10. Replacement Cost (Unaudited):

In compliance with the requirements of the Securities and Exchange Commission, information regarding the replacement cost of property and equipment and related depreciation will be included in the Company's Annual Report Form 10-K. Information concerning replacement of inventories will not be presented since the high turnover rate for inventories results in historical costs of inventories on hand and consumed in operations that do not differ materially from their replacement costs.

The information indicates that replacement costs and related depreciation would be significantly higher than the historical amounts contained in the financial statements. The replacement costs disclosed are based upon assumptions and judgments which are necessary in making the estimations. Because the uncertainties regarding these assumptions and estimations contain inherent limitations, the Company makes no representation that the replacement cost information is useful.

MOHASCO CORPORATION
Notes to Financial Statements

(12) Asset Replacement Costs (Unaudited)

The Company uses the LIFO method of costing substantially all its inventories and therefore the impact of inflation is reflected currently in its operating earnings with the exception of the increase in depreciation that would result if its productive facilities were valued at current replacement cost. The Company has traditionally been able to increase its revenues while maintaining approximately the same gross profit percentage on those revenues. The maintenance of gross profit percentage has taken place over periods of varying economic conditions, generally characterized by rising costs, and is a result of many factors, such as increasing selling prices, changing product mix and improving manufacturing processes. It is anticipated that this trend will continue in the future. Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required to purchase the assets which are being replaced. The additional capital investment principally reflects the cumulative impact of inflation on the long-lived nature of these assets.

The Company's annual report on Form 10-K, which is filed with the Securities and Exchange Commission, contains specific information with respect to year-end 1976 replacement cost of inventories, rental furniture and productive capacity (generally buildings, machinery, and equipment and leasehold improvements), and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year.

REPUBLIC STEEL CORPORATION
Notes to Financial Statements

Note K—Unaudited Replacement Cost Data

The Corporation's annual report on Form 10-K will contain certain data required by the Securities and Exchange Commission with respect to year end 1976 replacement cost of inventories and productive capacity (generally buildings, machinery, and equipment), and the approximate effect which estimated replacement cost would have had on the computation of cost of sales and depreciation expense for the year.

Replacing items of plant and equipment with assets having equivalent productive capacity has usually required a substantially greater capital investment than was required to purchase the assets which are being replaced. Historically steel prices have borne an unsatisfactory relationship to costs. Unless price increases fully cover increases in employment and raw material costs and costs associated with government mandated programs and produce satisfactory margins, profitability will be insufficient to meet the need of domestic steelmakers to replace older, uneconomic facilities, to spend large sums for environmental control and the requirements of OSHA, and to expand to meet future demand.

RIO GRANDE INDUSTRIES, INC.
Notes to Financial Statements

Replacement Cost Data (Unaudited)

The Company's financial statements are prepared on the basis of historical costs in accordance with generally accepted accounting principles. However, in compliance with rules promulgated by the Securities and Exchange Commission (SEC), the Company has calculated estimated replacement cost information relating to the Company's inventory and productive capacity at December 31, 1976, and the effect of such costs on operating and depreciation expenses for the year then ended. That information is contained in the Company's annual report to the SEC on Form 10-K, a copy of which is available to stockholders upon request.

The major impact of replacement costs is principally concentrated in the rail transportation segment of the Company's operations which utilizes, on a historical cost basis, approximately 86% of the Company's inventory and productive capacity. As described in Note 1, the current cost of renewals to the Railroad's track structure is charged to maintenance expense and additions and betterments are capitalized. The amounts capitalized are not depreciated. This results in the track structure having a historical cost based on 1919 costs when such property was valued by the Interstate Commerce Commission (ICC) plus additions and betterments capitalized since that date. This situation, together with the long operating life of the Railroad's property, results in estimated replacement costs of inventory and productive capacity substantially exceeding recorded historical amounts.

The Railroad's rate structure is principally regulated by the ICC. When considering requests for rate increases, the ICC does not recognize the replacement cost of inventory and productive capacity. However, even if increases sufficient to recover such costs were approved by the ICC, the Company's competitive position might preclude their implementation.

Replacement cost is based on the assumption that inventory and productive capacity would have been replaced as of December 31, 1976, without regard to the physical impossibility of, the availability of funds for, or the necessity or desirability of such replacement. In management's opinion, the Company will be able to make necessary additions or replacements of its properties on a timely basis as required to keep them in good operating condition and to meet current and foreseeable business demand.

THE SIGNAL COMPANIES, INC.
Notes to Financial Statements

16. General Description of the Impact of Inflation (Unaudited):

Reference is made to the Company's Annual Report on Form 10-K (a copy of which is available on request) for quantitative information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1976, and the related estimated effect of such costs on cost of sales and depreciation expense for the year then ended. See discussion in the Financial Review section, page 23.

Financial Review

This year the Securities and Exchange Commission has required that we provide data relative to the impact of inflation on our businesses ("Replacement Cost"). The Company's gross profit margin declined from 1972 through 1975 because of rampant inflation which peaked in double digit figures in 1974. In 1975, the inflation forces of the prior three years resulted in a severe economic recession, particularly in the heavy-duty truck industry, wherein prices could not be increased to recover high costs in inventories at the close of 1974. In 1976, our gross profit margin recovered approximately to the level realized during 1974, and all of the Company's subsidiaries contributed to this improvement. The SEC "Replacement Cost" promulgation also requires we estimate what it would have cost to replace our productive capacity at year-end. If we replaced all of our fixed plant and equipment, the loss in purchasing power of the dollar due to inflation over recent years would require an expenditure above the original investment. This disclosure is not of practical usefulness because, our companies have recently modernized and expanded their facilities, and foreseeable internally generated cash flow, together with readily available external financing sources, are adequate to maintain and add to our existing facilities in the normal course of business.

The SEC has properly cautioned investors and analysts against simplistic use of this data. The Company cannot overemphasize the importance of this caution. Replacement cost adjustments should not be made to reported net income because of the unpredictability of future prices in competitive markets. The Company does not intend to replace all of its productive capacity at this or any other time and, therefore, replacement cost adjustments should not be made to net book value.

You may read a more expanded response to the SEC "Replacement Cost" requirement in our Form 10-K by writing for a copy at the address shown on page 44.

SMITH INTERNATIONAL, INC.
Notes to Financial Statements

14. Asset Replacement Cost (Unaudited)

In accordance with the requirements of the Securities and Exchange Commission, the following general description of the impact of inflation on the Company's business is presented.

The effect of inflation on production costs during 1976 was generally offset by increased selling prices. Pricing policies and production efficiency improvements have enabled the Company to maintain profit margins during inflationary periods. Management is not aware of any economic factors that would prevent it from maintaining its historical relationships between cost changes and selling price changes.

Replacing plant and equipment with new assets having equivalent production capacity has generally required a greater capital investment than was originally required to purchase the assets being replaced. Although replacement cost of the Company's plant and equipment is significantly higher than historical cost, depreciation on the replacement cost basis approximates the depreciation charge included in the accompanying statement of income. The reason for this relationship is that substantially all the depreciation on the books is computed using the declining-balance method while the SEC requires that depreciation on a replacement-cost basis be calculated using the straight-line method.

Various methods exist for funding the eventual replacement of the Company's production capacity including: earnings retained in the business, depreciation expense which does not require cash outlays, investment tax credits, debt, and issues of equity securities. Management believes that sufficient options exist to minimize the risks of operating in an inflationary environment. The determination of the source of funds will be made at the time the funds are required in light of the circumstances at that time.

The Company's annual report on Form 10-K (a copy of which is available upon request) contains specific information with respect to year-end 1976 replacement cost of inventories, rental equipment and production capacity (buildings, machinery and equipment), and the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year.

VI

INFORMATION ABOUT SUBSEQUENT EVENTS

"Subsequent events" are defined by Section 560 of AICPA Statement on Auditing Standards No. 1 as events or transactions that occur subsequent to the balance-sheet date but prior to the issuance of the financial statements and auditor's report and that have a material effect on the financial statements. Subsequent events are of two types; the first type provides evidence of conditions that existed at the date of the balance sheet and the second type provides evidence of conditions that arose subsequent to the balance-sheet date. The first type of subsequent event requires adjustment of the financial statements but the second type does not.

Some events of the second type require disclosure to keep the financial statements from being misleading. According to Section 560, an event may occasionally be so significant that disclosure can best be made by furnishing pro forma financial data or statements that give effect to the event as if it had occurred on the balance-sheet date.

Thirteen examples are presented of the disclosure of unaudited information about subsequent events of the second type. The examples are classified according to the nature of the event disclosed and whether pro forma disclosure was made. A more comprehensive presentation of examples of the disclosure of both audited and unaudited information about subsequent events is contained in Financial Report Survey No. 9, "Illustrations of the Disclosure of Subsequent Events," published by the AICPA in 1976.

BUSINESS COMBINATION—PRO FORMA DATA

ARA SERVICES, INC.
Notes to Financial Statements

(3) Commitments and Contingencies:

Subsequent to October 1, 1976, the Company has acquired certain businesses and has made offers for others. Financial data with respect to these businesses are not included in the financial statements or notes because the consideration offered and the financial positions and results of operations of these businesses, in the aggregate, are not significant except that the Company has entered into a letter of intent to acquire the United States rental service operations of Work Wear Corporation. It is estimated that approximately 475,000 shares of common stock will be issued in connection with this acquisition, subject to approval by Work Wear shareholders and the obtaining of certain other approvals and consents.

The following pro-forma amounts reflect the combined results of the Company and the rental service operations of Work Wear Corporation for the year ended October 1, 1976 (unaudited):

	(in thousands)
Revenues	$1,387,167
Net Income	40,082
Fully diluted earnings per common and common equivalent share	$3.99

(10) Subsequent Event

On September 8, 1976, the Company announced that it had entered into an agreement in principle to acquire Eckerd Drugs, Inc. In connection with the contemplated acquisition, the stockholders of Eckerd Drugs, Inc. would receive .9 of a share of the Company's common stock for each share of the common stock of Eckerd Drugs, Inc. owned by them. The exchange is based upon the 4,611,310 shares of Eckerd Drugs, Inc. outstanding at April 3, 1976. The equivalent exchange ratio following the 3-for-2 split of the Eckerd Drugs, Inc. stock effective October 15, 1976 is .6 of the Company's stock for each share of the common stock of Eckerd Drugs, Inc.

The consummation of the transaction, which it is anticipated will occur late this year, is subject to various conditions, including the execution of a definitive agreement acceptable to the boards of directors of both corporations and the approval of the transaction by the shareholders of both corporations.

The following pro forma, condensed financial statements, prepared on the basis of a pooling of interests through merger, represent an arithmetical combination of the separate statements of the Company as of July 31, 1976 and Eckerd Drugs, Inc. as of April 3, 1976:

Balance Sheet (Unaudited)
(In thousands)
Assets

Cash		$ 9,215
Short-term investments		43,685
Receivables, net		20,078
Merchandise inventories		164,917
Prepaid expenses and other current assets		1,287
Total current assets		239,182
Property, plant and equipment, net		54,426
Excess of cost over net assets of subsidiaries acquired		23,828
Other assets and deferred charges		2,542
		$319,978

Liabilities and Stockholders' Equity

Current installments of long-term debt		$ 544
Accounts payable		47,969
Accrued expenses		17,809
Federal and state income taxes—current and deferred		13,826
Total current liabilities		80,148
Long-term debt, excluding current installments		7,951
Stockholders' equity:		
Common stock	$ 2,306	
Preferred stock	3	
Capital in excess of par value	61,446*	
Retained earnings	168,124	
Total stockholders' equity		231,879
		$319,978

*The excess of the par value over the cost of Eckerd Drugs, Inc. preferred treasury stock is included in capital in excess of par value.

Statement of Earnings (Unaudited)
(In thousands)

Sales and other operating revenue	$871,077
Costs and expenses	793,037
Earnings before Federal and state income taxes	78,040
Federal and state income taxes	38,236
Net earnings	$ 39,804
Net earnings per common share and common share equivalent	$1.72

GANNETT CO., INC.
Notes to Financial Statements

(13) Other Acquisition Matters

On December 28, 1976, (in the Company's 1977 fiscal year) the Company acquired all the outstanding capital stock of Citizen Publishing Company, publisher of the Tucson (Arizona) Citizen, in exchange for 743,236 shares of the Company's common stock. The transaction is to be accounted for as a pooling of interests, and accordingly, financial statements for prior years will be restated to include the operating results and effect on shareholders' equity and earnings per share. Had the merger been completed prior to December 26, 1976, the accompanying consolidated statements of income would have been restated to reflect combined operations as follows:

	Pro Forma (Unaudited) Year Ended		
	Dec. 26, 1976	Dec. 28, 1975	Dec. 29, 1974
Operating revenue	$425,663,935	$369,405,401	$342,429,327
Net income	$ 49,236,270	$ 39,566,739	$ 34,131,960
Net income per share	$2.20	$1.78	$1.54
Average number of shares outstanding during the year	22,371,976	22,270,864	22,227,254

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SALANT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheet

	Unaudited Pro-Forma November 27, 1976 (Note 12)	November 27, 1976	November 29,1975
Assets			
Current Assets:			
Cash	$ 2,765	$ 2,765	$ 2,784
Accounts receivable, net of allowance for doubtful accounts of $479,000 and $544,000	25,116	25,116	24,123
Due from Sears, Roebuck and Co. (Notes 6 and 12)	—	10,666	—
Inventories (Note 1):			
Finished goods	35,933	32,440	31,200
Work in process	8,240	7,208	8,896
Raw materials and supplies	17,360	15,503	13,477
	61,534	55,152	53,574
Refundable federal income taxes	117	117	817
Prepaid expenses and other assets	1,335	1,332	1,548
Total Current Assets	90,868	95,149	82,847
Property, Equipment and Leasehold Improvements (Note 1):			
Land and buildings	8,637	6,138	5,826
Machinery, equipment, furniture and fixtures	11,876	9,476	9,022
Leasehold improvements	1,708	1,708	1,582
	22,222	17,323	16,431
Less accumulated depreciation and amortization	7,772	7,772	7,072
	14,450	9,551	9,358

Other Assets:			
Excess of cost over net assets acquired (Note 1)	982	982	982
Other	915	915	1,059
	1,898	1,898	2,042
	$107,217	$106,599	$94,248
Liabilities and Shareholders' Investment			
Current Liabilities:			
Notes payable to banks (Note 2)	$ 4,063	$ 4,063	$ 741
Accounts payable—trade	9,979	9,979	11,427
Accrued wages, salaries and other liabilities	6,409	5,791	4,863
Taxes, other than federal income taxes	1,107	1,107	1,100
Federal income taxes (Note 5)	1,852	1,852	842
Long-term debt due within one year (Note 3)	248	248	3,335
Total Current Liabilities	23,661	23,043	22,311
Long-Term Debt (Note 3)	37,881	37,881	29,779
Deferred Liabilities	2,022	2,022	2,281
Commitments (Notes 4 and 10)			
Shareholders' Investment (Notes 3, 7 and 9):			
Preferred stock, par value $2 per share: Authorized, 1,000,000 shares Issued—none			
Common stock, par value $1 per share: Authorized, 4,000,000 shares Issued and outstanding, 3,046,355 and 2,952,907 shares	3,046	3,046	2,952
Additional paid-in capital	11,791	11,791	11,329
Accumulated earnings	28,813	28,813	25,593
	43,651	43,651	39,876
	$107,217	$106,599	$94,248

Notes to Financial Statements

12. Subsequent Event

On December 1, 1976, Salant acquired certain assets and liabilities of Blue Bell, Inc. for $14,219,000 in cash. The acquisition is to be accounted for as a purchase and since it occurred after Salant's year-end, no amounts applicable to the acquisition are included in the 1976 consolidated financial statements of Salant.

The pro-forma consolidated balance sheet at November 27, 1976 includes the acquisition as if it had occurred on that date and reflects the payment of the purchase price to Blue Bell, Inc. from the proceeds of an account receivable from Sears, Roebuck and Co. and from additional sales to Sears in December 1976 of inventories acquired from Blue Bell, Inc.

The assets acquired contributed approximately $35,000,000 of revenue to Blue Bell, Inc. in 1976.

BUSINESS DIVESTITURE—PRO FORMA DATA

MEI CORPORATION

Notes to Financial Statements

(1) Transactions Subsequent to December 31, 1976

Effective February 18, 1977, the Company acquired Search Investments Corp. and its subsidiary J.F.W. Enterprises, Inc. (which at December 31, 1976, had assets and liabilities approximating $11,000,000 and $7,700,000, respectively) through the exchange of 805,161 shares of MEI common stock for all outstanding Search shares and issuance of MEI's $800,000, 7% convertible subordinated debenture and 10 year warrants for 25,000 shares of common stock. The debenture is convertible into 200,000 shares of common stock and the warrants may be exercised at $4.25 per share within a 10 year period. The acquisition of Search will be accounted for under the purchase method of accounting.

Effective March 10, 1977, the Company sold its investment in common stock of Hamilton International Corporation as part of a merger of Hamilton with a subsidiary of Household Finance Corporation. Earlier in 1977, Household had purchased the Company's preferred stock position in Hamilton. MEI received an aggregate of approximately $6,000,000 for its investment in Hamilton resulting in a gain of approximately $140,000 after income taxes, that will be reported in 1977. In addition, MEI had recorded its investment in common stock on the equity method and, as such, had reported after-tax income through 1976 of approximately $375,000 since acquisition of the common stock in 1974. Concurrent with the merger of Hamilton and Household, the Company purchased Hamilton's wholly-owned subsidiary, Pepsi-Cola Bottling Company of St. Louis, Inc. (which at December 31, 1976, had assets and liabilities approximating $13,000,000 and $7,700,000, respectively) for $5,200,000.

The following pro forma operating information for 1976 gives effect to the acquisition of Search and Pepsi-Cola St. Louis and the sale of Hamilton by MEI as if the transactions had occurred on January 1, 1976. It is not necessarily indicative of the results of operations had MEI, Search and Pepsi-Cola St. Louis operated as a single entity.

	Pro Forma Combined (unaudited)
Beverage Sales	$150,600,000
Operating Income	$ 17,800,000
Net Income	$ 6,700,000
Earnings Per Share	$ .91

BUSINESS COMBINATION—OTHER THAN PRO FORMA DATA

CAPITAL CITIES COMMUNICATIONS INC.
Notes to Financial Statements

2. Acquisitions

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Purchase—1977—On February 15, 1977, the Company acquired all of the outstanding stock of The Kansas City Star Company for an aggregate consideration of $125,002,000, consisting of a cash payment of $114,752,000 and $10,250,000 in 6¼% notes, payable in three equal annual installments with the final payment due February 15, 1980. The acquisition will be accounted for as a purchase, with the results of operations of Star to be included in the consolidated results of the Company for periods subsequent to the date of acquisition.

The Company obtained a $72,000,000 term bank loan on February 15, 1977, payable in 26 equal quarterly installments of $2,700,000 each, commencing August 15, 1978 and a final installment of $1,800,000 on February 15, 1985, with interest at +8.2% per annum. Under terms of the loan agreement the Company is restricted from paying cash dividends exceeding, in the aggregate, 33⅓% of consolidated income before extraordinary gains from January 1, 1977. The Company must also maintain certain minimum working capital ratios and stockholders' equity of at least $200,000,000.

Star is principally engaged in the business of publishing daily newspapers in Kansas City, Missouri, *The Kansas City Times* (morning) and *The Kansas City Star* (evening and Sunday). Star is also engaged in the manufacture and sale of fine papers through its wholly-owned subsidiary, Flambeau Paper Company, and in the distribution of paper and paper products through its 91%-owned subsidiary, Graham Paper Company. Unaudited consolidated revenues and net income of The Kansas City Star Company for the nine months ended September 30, 1976 were $135,528,000 and $4,269,000, respectively.

COMPUDYNE CORPORATION
Notes to Financial Statements

(I) Subsequent Event

Effective as of November 1, 1976, the Company exchanged the common stock of its wholly owned subsidiary, General Indicator Corporation, for newly issued shares of common stock of Ovitron Corporation of Newburgh, New York, which shares constitute 75% of the presently issued and outstanding shares of Ovitron Corporation. Simultaneously with such sale the Company purchased from the holders thereof obligations of Ovitron Corporation totaling $1,057,799 for a cash consideration of $26,445 with the understanding that such obligations would be exchanged by the Company for a new class of Ovitron Corporation preferred stock when authorized by the stockholders of Ovitron Corporation. The Company's equity in the net assets of General Indicator Corporation was $1,242,240 as of September 30, 1976. Ovitron Corporation is engaged in the manufacture and sale of electronic communicating components and equipment. Its unaudited sales for the nine months ended September 30, 1976 amounted to approximately $360,000.

DAMON CORPORATION
Notes to Financial Statements

M. Event (Unaudited) Subsequent to the Balance Sheet Date

In September, 1976, the Company acquired the business of a clinical laboratory for $4,000,000 of cash. Unaudited sales and net income of the acquired business approximated $3,498,000 and $141,000 in 1975 and $4,026,000 and $280,000 in 1976. At August 31, 1976, its net assets approximated $3,193,000.

FIRST CITY BANCORPORATION OF TEXAS, INC.
Notes to Financial Statements

(11) Pending Acquisitions

The Company has entered into separate agreements to acquire all of the outstanding shares of the following banks:

	Total Assets December 31, 1976 (Unaudited)	Shares of Company's Common Stock to be Issued
City National Bank of Austin	$349,776,000	827,176 shares-maximum 711,756 shares-minimum
The City National Bank of Bryan	$ 58,858,000	210,000 shares
East Dallas Bank	$ 29,960,000	150,000 shares

If consummated, the acquisitions will be accounted for as poolings of interests and would reduce the Company's per-share consolidated income before securities transactions for 1976 and 1975 by $.09 and $.10, respectively, assuming issuance of the minimum number of shares. Each of the acquisitions is subject to the approval of regulatory authorities and each bank's shareholders.

G. HEILEMAN BREWING COMPANY, INC.
Notes to Financial Statements

(2) Acquisitions

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Rainier Brewing Company—

In December, 1976, the Company entered into a purchase agreement with The Rainier Companies, Inc., Seattle, Washington, for the acquisition of Rainier Brewing Company and certain real estate and other assets related to Rainier's brewery operations. The purchase agreement has been ratified by the Board of Directors of both the Company and Rainier and is subject to approval by the shareholders of The Rainier Companies, Inc. at a meeting scheduled for March, 1977. The agreement provides for a cash purchase price of $6,352,000 plus the working capital of Rainier Brewing Company which is estimated to be approximately $1,400,000 on the date of acquisition.

Unaudited financial statements of Rainier Brewing Company included in the proxy statement prepared in connection with the purchase agreement reflected sales and net income for the nine months ended December 31, 1976 of $35,601,000 and $1,441,000, respectively. When consummated, this acquisition will be accounted for under the purchase method of accounting.

TRIANGLE PACIFIC CORP.
Notes to Financial Statements

Note 8—Subsequent Acquisition:

On February 1, 1977, the company entered into an agreement to purchase the assets of the Hardwood Flooring Division of the E. L. Bruce Co., Inc., a wholly owned subsidiary of Cook Industries, Inc. The agreement provides for the payment of approximately $12,000,000 in cash with closing scheduled for February 26, 1977. The transaction will be treated as a purchase for accounting purposes, and accordingly, the operating results of the Division will be included in consolidated earnings from the date of acquisition. The net sales and net earnings of the Division for the twelve months ended December 31, 1976 (unaudited), were $25,819,000 and $1,012,000, respectively.

WEST CHEMICAL PRODUCTS, INC.
Notes to Financial Statements

Note J—Event (Unaudited) Subsequent to Date of Accountants' Report:

On February 14, 1977, the Company acquired all of the outstanding stock of Chemical Industries, Inc. and affiliated companies ("Industries"). Industries' primary business is the sale of industrial chemicals for maintenance purposes and it also markets lighting products. The purchase price consisted of (i) approximately $1,450,000 in cash, which was approximately $950,000 (attributable to customer lists) in excess of the net assets of Industries, (ii) future cash payments aggregating $500,000 if certain earnings levels are achieved and (iii) additional future cash payments generally equal to the excess earnings (as defined) of Industries over $200,000 per year for six years; if the aggregate of such excess earnings reaches $4,000,000, than any further payments resulting from such excess earnings are reduced by one half. Further, the Company advanced approximately $1,200,000 to Industries for the repayment of certain stockholder and bank loans and for working capital. The funds used for the acquisition were borrowed under the Company's available lines of credit.

OPERATING LOSSES, CONTINUANCE OF

DE ROSE INDUSTRIES INC.
Notes to Financial Statements

3. Operating Losses and Closed Plants

The Company's operations have been affected by the adverse economic conditions in the mobile home industry. As a result, the Company incurred operating losses of $2,120,000 in 1974, $1,559,000 in 1975 and $1,211,000 in 1976 and unaudited information indicates that losses have continued in January, 1977. In addition, economic conditions in the industry required the Company to close two of its eight plants in 1974, a third plant in September, 1975 and a fourth plant in December, 1976.

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TENDER OFFER

APPLIED DIGITAL DATA SYSTEMS INC.
Notes to Financial Statements

Note J—Events Subsequent to Date of Accountants' Report (Unaudited):

On January 19, 1977, the Company's registration statement with respect to the exchange offer for any or all of the common stock of Milgo Electronic Corporation, referred to in Note H, became effective. On January 21, 1977, Racal Electronics Limited made a tender offer to holders of Milgo common stock for any or all of the Milgo common stock for cash, at $26.00 per share. Thereafter, both the Company and Racal amended their respective offers for Milgo common stock several times.

The Company acquired approximately 824,000 shares of Milgo common stock (approximately 48% of the outstanding Milgo common stock) pursuant to its final offer of $5.00 cash plus one share of its $1.00 Cumulative Convertible Preferred Stock (a common stock equivalent) which is convertible into 2.25 shares of the Company's Common Stock, for each share of Milgo common stock.

On February 22, 1977 the Company tendered substantially all of its holdings of Milgo common stock to Racal pursuant to Racal's final offer of $36.00 cash per share. The Company tendered its Milgo common stock to Racal in view of the asserted success of Racal's tender offer in attracting tenders of a majority of the outstanding shares of Milgo common stock. The Company's loss in connection with these transactions was not material.

VII

MISCELLANEOUS TYPES OF UNAUDITED FINANCIAL INFORMATION

Some companies included in NAARS disclose unaudited information of various types other than those discussed in the previous chapters. The most common type disclosed is financial information about unconsolidated affiliates used to calculate the parent company's equity in net assets and net income. Another type is proforma calculations of net income for a business combination accounted for by the purchase method as though the companies had combined at the beginning of the period instead of during the period, the disclosure of which is required by AICPA Accounting Principles Board Opinion No. 16, "Business Combinations."

Thirty-four examples are presented of the disclosure of miscellaneous types of unaudited financial information, classified according to the nature of the information disclosed. A more comprehensive presentation of examples of the disclosure of both audited and unaudited proforma calculations of net income under a business combination is contained in Financial Report Survey No. 11, "Illustrations of the Disclosure of 'Pro Forma' Calculations," published by the AICPA in 1976.

ALTERNATIVE ACCOUNTING PRINCIPLE (INTERIM EFFECTS)

WALGREEN CO.
Statement of Major Accounting Policies

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Inventories:

Substantially all inventories are valued on a last-in, first-out (LIFO) cost basis. At August 31, 1976 and 1975, inventories would have been greater by $26,779,000 and $23,319,000, respectively, if they had been valued on a lower of first-in first-out (FIFO) cost or market basis. Inventory values at the end of each interim fiscal quarter would have been greater by the following amounts (in thousands):

Quarter Ended	(Unaudited) 1976	1975
November	$25,469	$15,090
February	27,239	17,994
May	28,694	20,626

At August 31, 1976 and 1975, the Company experienced lower inventory levels in certain LIFO pools compared with the previous year-end inventory levels, which caused a liquidation of LIFO inventories which were carried at lower costs prevailing in prior years. The effect of this liquidation was to reduce cost of sales by $2,449,000 and $1,500,000 and increase net income by $1,228,000 ($.18 per share) and $688,000 ($.10 per share) in 1976 and 1975 respectively.

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AVERAGE FINANCIAL AMOUNTS

FIRST WISCONSIN CORPORATION
Consolidated Balance Sheet

	December 31		Average Balances (Unaudited)	
	1976	1975	1976	1975
Assets				
Cash and Due From Banks, Demand	$ 735,922	$ 633,428	$ 587,939	$ 502,324
U.S. Treasury and Federal Agencies	14,672	2,887	8,119	6,728
State and Political Subdivision Securities	10,608	3,811	5,676	2,859
Other Trading Investments	3,000	—	1,142	128
Trading Investments	28,280	6,698	14,937	9,715
Federal and Other Reserve Funds Sold and Securities Purchased Under Agreements to Resell	142,609	94,781	58,996	70,131
U.S. Treasury and Federal Agencies	32.197	4,222	12,239	4,728
Foreign Office Investments (Note 2)	447,221	330,100	318,903	257,076
Other Temporary Investments	20,278	32,302	25,755	22,665
Temporary Investments (Note 3)	642,305	461,405	415,893	354,600
U.S. Treasury and Federal Agencies	332,385	297,807	414,443	274,405
State and Political Subdivision Securities	96,308	157,286	134,523	164,557
Other Portfolio Investments	48,779	22,016	32,108	23,988
Portfolio Investments (Note 3)	477,472	477,109	581,074	462,950
Business and Individual Loans	679,135	713,525	665,216	776,075
International Loans—Domestic Offices (Note 2)	301,406	297,340	281,949	211,208
International Loans—Foreign Office (Note 2)	97,663	83,760	89,665	127,379
Construction Loans	79,960	106,726	91,943	113,210
Income Property Loans	93,979	88,752	89,916	86,496
Installment Loans	163,035	146,099	151,639	150,776
Charge Card Loans	115,234	97,639	96,375	85,820
Residential Mortgage Loans	324,836	291,426	304,340	286,138
Loans (Note 4)	1,855,248	1,825,267	1,771,043	1,837,102
Less Reserve for Possible Losses on Loans (Note 5)	22,002	22,000	23,448	23,659
Loans—Net	1,833,246	1,803,267	1,747,595	1,813,443
Earning Assets	2,981,303	2,748,479	2,759,499	2,640,708
Bank Premises and Equipment (Note 6)	138,530	142,287	140,913	142,465
Customer Acceptance Liability	22,110	12,007	25,899	23,795
Other Real Estate (Note 7)	100,786	66,242	85,699	58,437
Other Assets (Note 8)	56,703	43,197	49,960	49,236
Total Assets	$4,035,354	$3,645,640	$3,649,909	$3,416,965
Liabilities and Stockholders' Equity				
Demand Deposits	$1,327,472	$1,263,713	$1,080,612	$ 976,589
Personal Time Deposits (Note 9)	1,014,148	926,635	974,981	889,860
Business and Municipal Time Deposits (Note 9)	385,567	342,106	386,073	411,989
Foreign Office Time Deposits	546,568	417,284	408,580	386,369
Time Deposits	1,946,283	1,686,025	1,769,634	1,688,218

Deposits	3,273,755	2,949,738	2,850,246	2,664,807
Federal and Other Reserve Funds Purchased and Securities Sold Under Agreements to Repurchase	409,930	357,490	441,839	381,610
Debentures and Capital Notes (Note 10)	70,514	70,567	70,546	70,575
Other Borrowed Funds (Note 11)	43,274	44,579	44,196	57,423
Borrowed Funds	523,718	472,636	556,581	509,608
Acceptances Outstanding	22,110	12,007	25,899	23,795
Minority Interest in Stockholders' Equity of Subsidiaries	2,213	2,165	2,187	2,178
Other Liabilities (Notes 12, 13)	47,341	48,307	53,163	58,758
Liabilities	3,869,137	3,484,853	3,488,076	3,259,146
Capital Stock	10,698	10,698	10,698	10,698
Capital Surplus	7,419	7,419	7,419	7,419
Retained Earnings	152,202	146,807	147,831	143,839
Stockholders' Equity Before Treasury Stock	170,319	164,924	165,948	161,956
Less Treasury Stock (At Cost)	4,102	4,137	4,115	4,137
Stockholders' Equity (Notes 11, 14)	166,217	160,787	161,833	157,819
Commitments and Contingencies (Notes 12, 15, 18, 22)				
Total Liabilities and Stockholders' Equity	$4,035,354	$3,645,640	$3,649,909	$3,416,965

The average balances presented in the consolidated financial statements were not examined by independent certified public accountants.

BUSINESS COMBINATION—PRO FORMA DATA

AVONDALE MILLS
Notes to Financial Statements

(2) Acquisition of Cowikee Mills

In February, 1975 the Company acquired all of the outstanding common stock of Cowikee Mills (Cowikee) for 200,000 shares of the Company's common stock. The total purchase price was approximately $4,075,000, consisting of the quoted market value of Avondale's shares ($3,900,000) and other costs of the transaction.

At the date of acquisition, Cowikee's net asset value exceeded the purchase price by approximately $3,917,000. This excess is applied as a reduction of the cost of property, plant and equipment in the accompanying financial statements and is being amortized to income (as a reduction of depreciation expense) over the life of the related assets.

The purchase price of Cowikee is subject to adjustment for certain contingencies. Should these contingencies not materialize prior to December 28, 1977, an additional 20,000 shares of the Company's common stock (to be adjusted for stock dividends and splits and accrued interest) will be issued to the former Cowikee shareholders. The effect of issuing these shares would be to increase the purchase price, and reduce the related excess of Cowikee's net asset value over Avondale's cost, by $390,000.

This transaction was recorded under the purchase accounting method and accordingly the results of Cowikee's operations are included in the accompanying financial statements since the date of acquisition. Unaudited pro forma results of operations, after giving effect to acquisition adjustments and assuming the transaction occurred on September 1, 1974, are as follows:

	1975
Sales	$182,824,000
Net income	$ 4,508,000
Earnings per share	$ 2.19

CFS CONTINENTAL, INC.
Notes to Financial Statements

Note 1—Business Combinations and Dispositions

During 1976, the Company acquired all the stock of a business engaged in the packaging and distribution of confectionery products in exchange for 23,340 shares of Series A-4 Convertible Preferred Stock (Note 2) and $196,000 in cash and the business of an institutional distributor for approximately $200,000 cash. These transactions have been accounted for as purchases. In addition, in January 1976, an institutional distribution business was sold, at a slight gain, for $500,000 cash and a four-year $300,000 secured installment note bearing interest at 125% of the prime rate.

In 1975, the Company acquired all the stock or the assets of five businesses in exchange for 9,250 shares of Series A-3 Convertible Preferred Stock (Note 2), and $2,380,000 in cash and long-term notes payable in transactions accounted for as purchases. In addition, in May 1975, one business was sold for a ten-year secured 6.5% installment note receivable of $1,411,000 which approximated net book value of assets sold.

Unaudited pro forma net sales, assuming the two businesses purchased in 1976, the five businesses purchased in 1975 and the net assets of the businesses sold in 1976 and 1975 were purchased or sold as of September 28, 1974, are $518,407,000 for 1976 and $464,212,000 for 1975. Unaudited pro forma net income and income per common and common equivalent share for 1976 and 1975 are substantially the same as results on a historical basis.

The accumulated excess of the purchase price over the underlying tangible net assets of businesses purchased is $7,274,000 and $6,852,000 at October 2, 1976 and September 27, 1975, respectively, and is included in "Other Assets".

COLUMBIA GENERAL CORPORATION
Notes to Financial Statements

(2) Acquisitions and Discontinued Operations:

Acquisitions—

In September, 1975, the Company purchased 80% of the outstanding common stock of Well Machinery and Supply Co., Inc. for $80,000. Also, in June, 1976, the Company purchased 80% of the outstanding common stock of Tools & Abrasives, Inc. for $400,000. Both subsidiaries are engaged in the distribution of industrial supplies. Revenues and net income included in the 1976 results of operations is $4,212,000 and $21,000, respectively. If the Company had owned both these companies for the full two years ended August 31, 1976, unaudited revenues, net earnings and earnings per share from the continuing operations for the two years then ended would have been approximately as follows:

	(Unaudited) 1976	(Unaudited) 1975
Revenues	$47,773,000	$39,550,000
Net earnings	$ 1,197,000	$ 1,071,000
Earnings per share—		
Primary	$ 1.36	$ 1.15
Fully diluted	1.20	1.15

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GELMAN INSTRUMENT COMPANY
Notes to Financial Statements

Note C—Investment in Gelman Clemco Pty. Ltd.

Effective January 1, 1976 the Company increased its investment in Gelman Clemco Pty. Ltd (Clemco) from 46% to 76% at a cost of $74,192, and thereafter has included the accounts and operations of Clemco in consolidation. The Company's equity in net earnings for the period from July 1 to December 31, 1975 was $28,063. The minority interest in net earnings of Clemco for the period from January 1 to June 30, 1976 amounted to $22,000.

The unaudited pro forma operations of the Company and consolidated subsidiaries, including Clemco as though it had been consolidated as of August 1, 1974, are as follows:

	Years ended July 31	
	1976	1975
Net sales	$18,438,000	$13,512,000
Net earnings	1,126,000	580,000
Net earnings per share	.75	.42

NEXUS INDUSTRIES, INC.
Notes to Financial Statements

[1] Summary of Significant Accounting Policies:

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(c) Acquisition and Merger—

On March 4, 1975, Tropix Togs, Inc. ("Tropix") was acquired (and merged into the Company) for $2,580,392 in cash, $531,867 principal amount of 10% Deferred Purchase Price Payable (discounted fair value $386,135), $705,412 principal amount of 10% Subordinated Sinking Fund Debentures (discounted fair value $387,977) and 44,088 Warrants with a fair market value of $5,511. The total cost of the acquisition aggregated $3,360,015, including related expenses. This transaction was accounted for as a purchase and, accordingly, the results of Tropix' operations have been included in the accompanying financial statements since March 1, 1975. The excess of cost over the fair market value of Tropix' net tangible assets at the date of acquisition was $129,248, which is being amortized over a 40 year period.

Assuming the acquisition of Tropix had taken place as of April 1, 1974, the unaudited results of operations for the year ended March 31, 1975, after giving effect to certain proforma adjustments, would have been as follows:

Net Sales	$15,396,000
Income from continuing operations	272,000
Income from discontinued operations	28,000
Net income	$ 300,000
Earnings Per Common Share:	
Income from continuing operations	$.24
Income from discontinued operations	.03
Net income	$.27

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STANDARD-COOSA-THATCHER COMPANY
Notes to Financial Statements

Acquisition

In March 1975, the Company purchased the business and substantially all the net assets of Carlton, Inc. in exchange for approximately $3.5 million in cash and notes and the assumption of approximately $2.7 million of Carlton's long-term debt. At the date of acquisition, the net tangible assets of Carlton exceeded the cost of the Company's investment therein by approximately $5 million, which amount has been accounted for as a reduction of depreciable property.

The operations of Carlton, Inc. have been included in consolidated operations since its date of acquisition. Unaudited pro forma consolidated results of operations, assuming the acquisition had taken place at the beginning of fiscal year 1975 are as follows:

	1975
Net sales	$83,458,904
Net income	$344,736
Earnings per share	$.49

BUSINESS COMBINATION—FINANCIAL INFORMATION FOR INTERIM PERIOD PRECEDING COMBINATION

BAKER INTERNATIONAL CORPORATION
Notes to Financial Statements

2. Merger with Reed Tool Company:

On November 26, 1975, the Company and Reed Tool Company ("Reed") consummated a merger whereby Reed became a wholly-owned subsidiary of the Company. Reed and its subsidiaries are engaged primarily in the manufacture and sale of drilling tools and equipment for the petroleum and mining industries. Under the terms of the agreement the Company exchanged 2,324,677 of its common shares for all of the outstanding Reed common shares and reserved approximately 108,000 common shares for issuance in connection with Reed's stock option and compensation plans. The acquisition has been accounted for as a pooling of interests and, accordingly, the accompanying financial statements present the combined accounts of the Company and Reed including for 1976 the following unaudited results of Reed for the period October 1 through November 26, 1975 (the fiscal 1976 period through the date of the merger): revenues, $23,651,000; income before taxes, $4,060,000; and net income, $1,979,000.

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KELLOGG COMPANY
Notes to Financial Statements

Note 2. Business Combination

In August 1976 the Company acquired Mrs. Smith's Pie Company in exchange for 2,448,000 shares of Kellogg common stock. Mrs. Smith's produces frozen pies, fresh-baked pies and other products which are distributed in the United States and Canada.

The acquisition has been accounted for as a pooling of interests and 1975 financial statements of the Company have been restated to include the accounts of Mrs. Smith's. As a result of the combination, previously reported 1975 net sales of $1,213,620,000 increased to $1,344,969,000 and net earnings changed from $103,026,000 to $107,817,000.

Unaudited results of the separate companies for the six months ended June 30, 1976 (the period prior to the combination) are as follows: net sales—Kellogg $642,883,000 and Mrs. Smith's $60,425,000; net earnings—Kellogg $71,209,000 and Mrs. Smith's $2,401,000.

QUAKER STATE OIL REFINING CORPORATION
Notes to Financial Statements

2. Pooling of Interests:

In 1976, Quaker State issued 3,156,289 shares of capital stock in exchange for all of the outstanding shares of The Valley Camp Coal Company, whose principal business involves the underground mining, preparation and sale of bituminous steam coal. The acquisition has been accounted for as a pooling of interests and, accordingly, the consolidated financial statements for 1975 have been restated to include the accounts of Valley Camp. Subsequent to the acquisition, the Company changed the method of reflecting Valley Camp's investment credit to conform to Quaker State's deferral policy. The effect of this change was not material.

Revenues and net income for both companies for the year ended December 31, 1975 and the three-month period ended March 31, 1976 (unaudited), the period before the combination was consummated, are summarized as follows:

	Thousands of Dollars	
	Three months ended March 31, 1976	Year ended December 31, 1975
Revenues:		
Quaker State	$74,256	$296,257
Valley Camp	25,493	90,271
Consolidated	$99,749	$386,528
Net Income:		
Quaker State	$ 3,722	$ 23,185
Valley Camp	1,532	5,844
Consolidated	$ 5,254	$ 29,029

DISCONTINUED OPERATIONS

SUNAIR ELECTRONICS, INC.
Notes to Financial Statements

2. Discontinued Operation:

In January, 1976, the net assets of the Company's wholly-owned subsidiary, Schnacke, Inc., were sold. In February, 1976, Schnacke was liquidated and the Company received approximately $965,000. Net assets and net income (loss) of Schnacke, Inc. prior to liquidation have been separately classified as discontinued operations in the accompanying consolidated financial statements.

The Board of Directors of the Company is considering a plan to distribute to its shareholders the $965,000 from the liquidation of Schnacke through the redemption of common stock on a pro rata basis. In July, 1976, the Company received a ruling from the Internal Revenue Service allowing this distribution to be taxed as a capital gain to the shareholders subject to the provisions and limitations of Subchapter P of Chapter I of the Internal Revenue Code.

Condensed statements of operations of Schnacke, Inc. for the four months ended January 31, 1976, and the year ended September 30, 1975, are as follows:

	Four Months Ended January 31, 1976	Year Ended September 30, 1975
	(Unaudited)	
Sales	$268,508	$1,034,591
Cost of sales	176,131	592,199
Selling, general and administrative expenses, net of other income	100,560	299,574
	276,691	891,773
Income (loss) before income taxes	(8,183)	142,818
Provision (credit) for income taxes	(4,000)	72,941
Net income (loss)	$ (4,183)	$ 69,877

MANAGEMENT ANALYSIS OF THE STATEMENT OF INCOME

AMFAC INC.
Management's Analysis of the Statement of Income (Note 2) (Unaudited)
(All Dollars Reported in Thousands)

	Increase (Decrease) Over Prior Year	
	1976	1975
Revenues		
Food	$ 76,928	$ 9,670
Agriculture	(51,248)	(81,467)
Retail	25,959	26,183
Distribution	42,558	34,404
Hospitality	22,743	9,062
Asset Management	98	(11,355)
Corporate investments	233	32
Total increase (decrease) in revenues	117,271	(13,471)
Cost Of Sales		
Food	55,664	(1,876)
Agriculture	264	8,277
Retail	13,766	12,800
Distribution	37,193	28,745
Hospitality	2,704	(299)
Asset Management	172	(8,444)
Total increase in cost of sales	109,763	39,203

Expenses		
Food	14,524	2,018
Agriculture	723	(2,558)
Retail	10,764	9,647
Distribution	7,282	5,509
Hospitality	15,632	7,898
Asset Management	(283)	(9,598)
Accounting change for deferred preopening expenses (Note 2)		(3,205)
Corporate	544	1,022
Interest	2,121	(5,468)
Total increase in expenses	51,307	5,265
Decrease In Income Before Income Taxes	(43,799)	(57,939)
Decrease In Income Taxes (Note 7)	(25,400)	(32,006)
Decrease In Income From Consolidated Continuing Operations	(18,399)	(25,933)
Increase (Decrease) In Net Income Of Nonconsolidated Finance Subsidiaries	(958)	261
Decrease In Income From Continuing Operations	(19,357)	(25,672)
Discontinued Operations (Note 3)	1,000	6,325
Cumulative Effect On Prior Years Of Accounting Changes (Note 2)	17,407	(17,407)
Total Decrease In Net Income	(950)	(36,754)
Net Income Prior Year	20,089	56,843
Net Income Current Year	$ 19,139	$ 20,089

For 1976, revenues increased 10% and both cost of sales and expenses increased 15% over 1975. Food Group revenues for 1976 were up 56% over the prior year, including 34% relating to businesses acquired during the year. Volume increases accounted for the other 22% as selling prices remained relatively unchanged. Cost of food product sales increased 62% and expenses increased 44% over 1975. Sugar prices for 1976 were 31% lower than the prior year. Sugar sold was down 8% because fewer acres were harvested and yields were lower than 1975. As a result of increased volume and prices, retail sales and cost of sales for 1976 were 8% higher than 1975 and expenses were 9% higher. Distribution sales were 10% ahead of the prior year primarily as a result of businesses acquired and new branches opened. Cost of sales was up 11% and expenses were up 14%, which resulted in lower contribution to earnings for the Distribution Group in 1976 compared to 1975. Hospitality revenues for 1976 increased 19% over the prior year primarily as a result of new hotels, increased rates and occupancy. Hospitality costs and expenses increased 17% over 1975. Interest costs for 1976 were 13% higher than 1975, principally because of increased borrowings.

For 1975, revenues decreased 1%, cost of sales increased 6% and expenses increased 2% over 1974. Food Group revenues for 1975 were 8% over the prior year primarily as a result of increased selling prices. Cost of food product sales was slightly lower and expenses were 6% higher than 1974. Sugar prices for 1975 were 35% lower than the prior year. Sugar sold increased 18% primarily because more acres were harvested. Agriculture Group costs and expenses for 1975 were up 6% over the prior year. Retail sales for 1975 were 9% higher than 1974, including 3% for new stores (net of closed stores). Cost of retail sales for 1975 increased 8% as gross margins improved over 1974 and expenses increased 9%. Distribution sales for 1975 were 9% ahead of the prior year primarily becuase of businesses acquired and new branches opened. Cost of sales was up 9% and expenses were up 12% over 1974. Hospitality revenues for 1975 increased 8% over the prior year primarily as a result of new hotels and restaurants. Hospitality costs and expenses increased 7% over 1974. Interest expense was 25% lower than 1974, primarily as a result of lower borrowings during 1975.

PENSION FUND INFORMATION

THE FIRESTONE TIRE & RUBBER COMPANY
Notes to Financial Statements

Pension Plans

The majority of the Company's employees are covered by trusteed contributory and noncontributory pension plans. Minor changes in these pension plans required by the Employee Retirement Income Security Act of 1974 became effective on November 1, 1976. These changes will not result in a material increase in annual pension cost.

The cost of these pension benefits was $60,056 in 1976 and $56,373 in 1975, including amortization of prior service cost over 25 years. Pension cost increased in 1976 principally as a result of a partial year's effect of improved benefits. Pension costs accrued are funded by payments to trustees. Based upon the latest actuarial report at December 31, 1975, adjusted to reflect the impact of improved benefits effective in 1976, the amount required to fund prior service cost of such major plans was $490,000 and the actuarially computed value of vested benefits for the plans exceeded pension fund assets by $274,000.

Changes in Pension Fund Assets
(At Cost)

(Unaudited)	(in millions)
Assets at October 31, 1974	$509.7
Company Contributions	56.4
Employee Contributions	1.7
Income from Fund Assets	27.7
Transfer from Predecessor Plans	1.2
Pension Payments	(34.0)
Refunds to Withdrawing Employees	(.9)
Assets at October 31, 1975	$561.8
Company Contributions	60.1
Employee Contributions	1.9
Income from Fund Assets	34.9
Transfer from Predecessor Plans	1.6
Pension Payments	(36.0)
Refunds to Withdrawing Employees	(.6)
Assets at October 31, 1976	$623.7

Pension Fund Assets
(At Market)

October 31, 1974	$347.4
October 31, 1975	462.9
October 31, 1976	600.2

PRICE RANGE OF COMPANY'S STOCK

PEOPLES GAS COMPANY
Notes to Financial Statements

Dividends and Stock Prices

The table below provides information on dividends declared and the price range of the company's common stock on a quarterly basis for each of the last two fiscal years.

Common Stock Information (Unaudited)

	Dividends Declared		Stock Price Range			
	Fiscal	Fiscal	Fiscal 1976		Fiscal 1976	
Quarter Ended	1976	1975	High	Low	High	Low
December 31.........	75¢	67¢	35¾	32½	31⅛	23⅞
March 31.............	75¢	67¢	38½	34¾	36	30¼
June 30................	75¢	67¢	37½	35	37¼	32
September 30........	75¢	67¢	42⅛	37	36⅛	31⅝

DEERE & COMPANY
Notes to Financial Statements

Supplemental 1976 and 1975 Unaudited Quarterly Information

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The Company's common stock is listed on the New York Stock Exchange, the Midwest Stock

Exchange, and the Frankfurt, Germany Stock Exchange. Common stock per share sales prices from New York Stock Exchange composite transactions quotations follow:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1976:				
Market price				
High	$29.63	$35.06	$36.88	$34.50
Low	23.00	29.13	31.50	29.00
1975:				
Market price				
High	$22.63	$21.63	$23.88	$25.13
Low	18.07	17.25	19.32	19.25

HERCULES INCORPORATED
Notes to Financial Statements

12. Quarterly Financial Information (Unaudited):
Quarterly financial information for 1976 is presented on page 1-A of this report.

Page 1A

Operating Results By Quarters

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Market Price Range

	First		Second		Third		Fourth		Year	
	High	Low	High	Low	High	Low	High	Low	High	Low
1976	38	27⅛	34⅞	30⅝	32½	29⅛	29	24	38	24
1975	29⅝	22	34¾	21½	33	24⅝	29⅜	24¾	34¾	21½

SEGMENTS, SALES AND NET INCOME OF

KERR-MCGEE CORPORATION
Notes to Financial Statements

Lines of Business

Sales and net income by major line of business are summarized below for the last five years. The amounts shown as net income by major line of business were necessarily determined by use of management allocations and should be regarded as unaudited.

	1976	1975	1974	1973	1972
			Millions		
Sales—					
Petroleum	$1,421.1	$1,327.4	$1,139.0	$420.3	$393.9
Chemicals and plant food	436.6	414.1	346.0	243.4	218.9
Nuclear	96.8	56.7	64.9	63.9	66.5
Other	.6	.4	.4	.4	.3
	$1,955.1	$1,798.6	$1,550.3	$728.0	$679.6
Net Income—					
Petroleum	$ 80.6	$ 76.9	$ 76.5	$ 49.0	$ 38.9
Chemicals and plant food	32.1	49.5	42.1	12.4	9.2
Nuclear	25.1	6.2	(1.8)	1.3	1.5
Other	(3.7)	(1.5)	(.4)	.1	(.7)
	$ 134.1	$ 131.1	$ 116.4	$ 62.8	$ 48.9

AMERON
Notes to Financial Statements

(3) Jointly Owned Domestic Companies

The Company's 50 percent ownership in Gifford-Hill-American, Inc. is recorded at cost of $85,000 plus equity in undistributed earnings of $7,022,000 at November 30, 1976, based on audited financial statements as of the preceding December 31, and unaudited financial statements as of October 31, 1976. Since it is intended that a substantial portion of the undistributed earnings of Gifford-Hill-American represents a permanent investment, dividend income taxes have been provided only on earnings expected to be received as dividends during the next fiscal year. Dividend income taxes have not been provided on approximately $6,000,000 of undistributed earnings at November 30, 1976 and $5,000,000 at November 30, 1975. Financial information on Gifford-Hill-American, based upon the latest available audited and unaudited financial statements, follows:

Financial Condition	October 31, 1976 (unaudited)	December 31, 1975 (audited)
	(In Thousands)	
Assets		
Current assets	$12,685	$13,738
Property, plant and equipment, net	4,678	4,603
Other assets	101	70
	$17,464	$18,411
Liabilities	$ 3,090	$ 6,656
Stockholders' equity	14,374	11,755
	$17,464	$18,411

Operations	Ten Months Ended October 31, 1976 (unaudited)	Year Ended December 31, 1975 (audited)
	(In Thousands)	
Net sales	$23,138	$31,956
Cost and expenses	16,670	23,021
Income before taxes	6,468	8,935
Federal income taxes	3,098	4,228
Net income	$ 3,370	$ 4,707
Cash dividends paid	$ 750	$ 1,800

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CITIES SERVICE COMPANY
Notes to Financial Statements

1. Significant Accounting Policies

Principles of Consolidation—

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Investments in unconsolidated foreign subsidiaries, 50 percent owned companies and certain companies in which the ownership is less than 50 percent are accounted for under the equity method, with appropriate provision for the possibility of less than full realization of such equity. Combined, condensed, unaudited financial data relating to these companies as of and for the years ended December 31, 1976 and 1975 are as follows.

($ millions)	Unconsolidated foreign subsidiaries 1976	1975	Other equity companies 1976	1975
Working capital	$ 7.4	(4.8)	(124.1)	(21.6)
Property, plant and equipment (net)	98.6	96.1	1,304.7	1,121.2
Other assets	1.7	3.3	49.4	16.7
Long-term debt	(61.6)	(53.0)	(893.1)	(835.6)
Other liabilities	(2.7)	(1.1)	(70.5)	(44.4)
Stockholders' advances and equity	43.4	40.5	266.4	236.3
Cities Service investment	26.3	26.9	73.3	58.8
Gross income	$162.6	119.1	714.4	561.4
Net income	2.1	1.1	93.4	63.2
Cities Service equity	2.0	.1	20.6	14.7

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TECHNICAL OPERATIONS INCORPORATED
Notes to Financial Statements

(5) Equity in Construction Joint Ventures

The Company's interest in construction joint ventures is recorded on the equity basis with the Company recognizing its proportionate share of related revenues, costs, and expenses. Summary financial information for these joint ventures at September 30, 1976 follows:

	(In thousands of dollars) (Unaudited)
Current assets	$18,699
Property and equipment	495
	$19,194
Less—Liabilities and debt	13,772
Equity	$ 5,422

The Company's proportionate share of the joint ventures' net sales was $10,375,000 for 1976.

UNCONSOLIDATED MAJORITY OWNED COMPANIES

ELTRA CORPORATION
Notes to Financial Statements

Note 2—Foreign Subsidiaries:

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Not Consolidated:

Based on unaudited financial statements at recent dates, the net assets of foreign subsidiaries not consolidated, applicable to the Corporation's interests, exceeded cost of investments as of September 30, 1976 by approximately $9,394,000. Combined earnings from operations and dividends remitted to the Corporation were:

	1976	1975
Earnings	$1,417,000	$884,000
Dividends	492,000	328,000

HICKORY FURNITURE COMPANY
Notes to Financial Statements

1. Summary of Significant Accounting Policies:

A. Principles of Consolidation:

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The accounts of an 80%-owned subsidiary have not been included in consolidation; however, the Company's equity in its losses (unaudited), which are not significant, has been included in miscellaneous income.

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BUNDY CORPORATION
Notes to Financial Statements

Note B—Investments in Foreign Companies

Investments in foreign companies consisted of the following:

	1976	1975
Accounted for by:		
Equity method	$4,130,000	$3,761,000
Cost method	3,612,000	3,600,000
TOTAL	$7,742,000	$7,361,000

The foreign companies in which net earnings have been recognized by the equity method are located in West Germany, Japan, Sweden, Australia, and Italy. The combined totals for sales, net earnings, and shareholders' equity of these foreign companies approximated $39,000,000, $3,000,000, and $11,400,000, respectively in 1976.

The Company intends to dispose of its 60% interest in the Italian subsidiary and the equity in net earnings of foreign companies for 1976 includes a charge of $178,000 for the estimated loss of equity in the underlying net assets.

In 1975, the Company recognized $400,000 of equity in net earnings of a former 36%-owned associated Brazilian company, prior to its merger as of December 31, 1974 into a larger Brazilian company. Because of the reduced ownership percentage in the new company, the equity method of accounting for this investment ceased with the merger and the carrying amount of the investment is included with foreign investments accounted for by the cost method.

Based upon recent unaudited information on foreign investees carried at cost, equity in their net assets exceeded the Company's investment by approximately $1,700,000 (principally in associated companies in Japan and Brazil).

During 1976, the Company completed construction of a tube mill which is awaiting shipment to the associated Brazilian company. The means of settlement of the agreed purchase price ($755,000) is pending and the cost of the equipment has been classified with other assets at July 31, 1976.

At July 31, 1976, consolidated retained earnings includes $2,932,000 in unremitted net earnings of foreign companies accounted for by the equity method.

CHARTER MEDICAL CORPORATION
Notes to Financial Statements

Note D—Investments, Receivables and Foreign Operations

Investments in and receivables from other companies are as follows:

	September 30 1976	September 30 1975
Doctors' Hospital, Inc., Shreveport, Louisiana (22% owned)—at cost (no quoted market; equity in net assets based on unaudited financial statements: September 30, 1976—$613,000)	$ 735,000	$ 712,000
Hospital Underwriting Group, Limited, Hamilton, Bermuda (8% owned)—at cost (no quoted market; equity in net assets based on unaudited financial statements: October 31, 1976—$185,000)	198,000	—
Sassanian Medical Corporation, Tehran, Iran		
Investment—(19% owned 1976; 33% owned 1975)—at cost less equity in losses of Sassanian during 1976 of $141,000 (no quoted market; equity in net assets based on unaudited financial statements: August 31, 1976—$2,200,000)	2,203,000	3,688,000
Notes receivable arising from partial sale of investment, bearing interest at 11%, due quarterly to June 1, 1982	575,000	—
	2,778,000	3,688,000
Atlanta National Management Company, Atlanta, Georgia (50% owned)—at cost plus equity in earnings (no quoted market)	80,000	69,000
Other investments	60,000	10,000
Receivables from other companies	277,000	335,000
	$4,128,000	$4,814,000

An officer and director of the Company is a principal shareholder and officer of Atlanta National Management Company. A wholly-owned subsidiary of Atlanta National Management Company provides consulting services at cost to the Company. Fees paid or accrued by the Company for services amounted to approximately $313,000 in 1976 and $121,000 in 1975. The president of this subsidiary is also an officer and director of the Company.

In August 1975, the Company acquired a one-third ownership (Common Stock) in Sassanian Medical Corporation which owns a 172-bed hospital that commenced operations in April 1976. In addition, an Iranian based subsidiary of the Company entered into an agreement to manage the facility for a five-year term on a fee plus expense basis. In 1976, the Company sold a portion of its investment at an amount in excess of cost; however, the sales price for the shares may under certain conditions, be reduced to the Company's initial investment cost and therefore, no gain has been recognized. A significant portion of the sales transaction is represented by the issuance of purchasers' promissory notes and the reduction of existing indebtedness of the Company. A portion of the promissory notes are to be deposited in a bank and will be utilized to satisfy interest on obligations relating to the indebtedness created by the Company's initial investment in Sassanian. At September 30, 1976, the Iranian based subsidiary of the Company modified its agreement to manage the facility to provide only consultation to local management in the operations of the hospital on a fixed fee basis. As a result of the Company's transaction and the issuance of additional Common Stock by Sassanian in 1976, the Company's investment in Sassanian was reduced to a 19% ownership level as of September 30, 1976, and the amendment to the management contract reduced the Company's control over Sassanian operations.

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DELTEC INTERNATIONAL LIMITED
Notes to Financial Statements

Note 1—Accounting Policies

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A. Description of Business and Principles of Consolidation

The Company uses the "equity" method of accounting for all qualified investments in which it owns at least 20% of the equity. Certain other investments in which the Company has a 20% or greater interest, principally insurance brokerage operations in South America, are not carried at equity because in the opinion of management the Company is unable to exercise significant influence over these investments. Based on the most recent unaudited financial information available, the Company's equity in the underlying book value of these investments exceeded cost by approximately $800,000.

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DORCHESTER GAS CORPORATION
Notes to Financial Statements

(5) Investments In and Receivables From Affiliated Companies and Others

Investments in and receivables from affiliated companies and others are summarized as follows:

	Percent of voting common stock owned at August 31, 1976	Investments August 31, 1976	Investments August 31, 1975	Receivables August 31, 1976	Receivables August 31, 1975
Affiliated Companies:					
Coastal Plains, Inc.	43%	$1,323,510	$ 990,848	$ 850,000	$ 850,000
Del Norte Technology, Inc.	50%	725,967	592,827	—	—
Dorchester Development Corporation	50%	—	57,242	162,347	50,000
Tracy-Locke Company Inc.	—	—	504,943	—	—
		2,049,477	2,145,860	1,012,347	900,000

Others:					
Arabian Shield Development Company	5%	61,724	61,724	450,000	450,000
Land in Metropolitan Dallas, Texas		710,674	500,000	—	—
Applicable to drilling arrangements		—	—	—	465,172
Receivable from trade customer (note 9)		—	—	711,060	—
Other		105,410	119,713	193,523	12,008
		877,808	681,437	1,354,583	927,180
Total		$2,927,285	$2,827,297	$2,366,930	$1,827,180

The Company also owns 95% of the non-voting common stock of Coastal Plains, Inc. The notes receivable from Coastal Plains, Inc., which mature in early 1977 and bear interest at 6% and a bank prime rate, are convertible at any time prior to maturity into an aggregate of 70,875 shares of non-voting common stock. The Company anticipates that the maturity of these notes will be extended beyond August 31, 1977.

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Summarized financial information of affiliated companies as of August 31, 1976 and for the year then ended is as follows (information with respect to Coastal Plains, Inc. whose fiscal year is December 31, is unaudited):

	Coastal Plains, Inc.	Del Norte Technology, Inc.	Dorchester Development Corporation*
Current assets	$ 5,962,504	$1,478,884	
Other assets	899,717	725,697	
	$ 6,862,221	$2,204,581	$4,324,109
Current liabilities	$ 1,578,285	$ 226,483	
Other liabilities	2,922,089	526,163	
	$ 4,500,374	$ 752,646	$4,404,328
Stockholders' equity	2,361,847	1,451,935	[80,219]
	$ 6,862,221	$2,204,581	$4,324,109
Revenues	$15,194,270	$2,894,570	$ 48,718
Expenses	14,711,494	2,651,290	246,298
Net Earnings (loss)	$ 482,776	$ 243,280	[$ 197,580]

*Assets and liabilities unclassified between current and non-current.

At August 31, 1976, retained earnings included approximately $991,000 (net of deferred income taxes) of undistributed earnings of affiliated companies.

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MASONITE CORPORATION
Notes to Financial Statements

7. Key Data, Unconsolidated Foreign Affiliates (Unaudited)

	Masonite Canada		Masonite (Africa)	
(000 omitted)	1975	1976	1975	1976
Current assets	$ 9,742	$14,621	$ 7,109	$ 6,462
Noncurrent assets	4,925	25,477	17,322	16,557
Current liabilities	6,840	7,982	7,508	4,857
Long-term debt	—	20,000	5,337	3,193
Other noncurrent liabilities	632	876	744	748
Shareholders' equity	7,195	11,240	10,842	14,221
Masonite Corporation's investment	3,162	4,985	4,943	5,315
Net sales	$37,801	$47,640	$20,442*	$18,734
Net earnings	2,157	3,645	(978)	342
Masonite Corporation's equity in earnings	1,078	1,823	(457)	196

*Covers 14 month fiscal period.

MICROFORM DATA SYSTEMS, INC.
Notes to Financial Statements

Note C—Investment in and Advances to Zytron Data Systems

On January 19, 1976 the Company entered into an agreement with a company to form Zytron Data Systems (ZDS) to further develop a computer system used in the automated retrieval of information stored on microfilm. The Company acquired a 40% interest in ZDS by purchasing 40% of its common stock for $100,000 cash. The excess of cost of the Company's investment over its share of ZDS's underlying net assets ($20,000) will be amortized over a period of 10 years.

The Company also purchased $100,000 of 8% subordinated debentures due December 31, 1979 and has advances of $73,000 due from ZDS at July 30, 1976. The investment in ZDS is accounted for by the equity method. At July 30, 1976 the Company's share of the ZDS audited loss for the period January 19, 1976 through February 29, 1976 approximated $26,000. Based on the unaudited results of ZDS's operations subsequent to February 29, 1976 the Company provided for an additional loss of $76,000 on its investment and advances at July 30, 1976.

The Company guaranteed a note payable for ZDS. The Company's contingent liability approximates $46,000.

PACIFIC HOLDING CORPORATION
Notes to Financial Statements

Note 10—Investment in International Mining Corporation (IMC)

During 1976 the Company purchased a 15.1% interest in the International Mining Corporation for approximately $4,795,000. IMC is engaged directly through a wholly-owned subsidiary in the operation of a marine terminal and related services in Baltimore, Maryland. A majority-owned subsidiary and an affiliate together have a 49.5% interest in a columbium mining and processing operation in Brazil. Affiliated companies also mine molybdenum and rare earths in the United States and produce and sell nonferrous metals, their alloys and components.

The carrying value of the Company's investment in IMC at December 31, 1976 is less than the quoted market value at that date and is also less than the Company's proportionate share of IMC's net assets at September 30, 1976.

Investment in IMC:	
Number of common shares held	367,000
Average cost per share	$ 13.08
Aggregate investment, at cost	$4,795,000
Quoted market value of IMC shares held by the Company at December 31, 1976	$5,178,000
Proportionate share of IMC's net assets based upon unaudited interim September 30, 1976 IMC financial statements	$8,731,000*

The following abbreviated financial information relative to IMC was obtained from that company's publicly released financial statements and is not covered by the accompanying auditors' report.

Operating data—	Revenues	Net Income
Nine months ended September 30, 1976	$27,887,000*	$ 4,960,000*
Nine months ended September, 30, 1975	22,138,000*	1,929,000*

Financial position data—	Sept. 30, 1976*
Current assets	$ 8,582,000
Marketable securities	6,729,000
Investments in affiliated companies	34,049,000
Investments in majority-owned subsidiary	15,991,000
Plant and equipment, net	18,241,000
Other	1,359,000
Total assets	$84,951,000
Current liabilities	$ 9,643,000
Long-term debt	9,463,000
Other long-term obligations and deferred taxes	8,022,000
Shareholders' equity	57,823,000
	$84,951,000

*Unaudited—based on information contained in IMC's September 30, 1976 report on Form 10Q

In reviewing the above information it should be noted that (1) some of the IMC operations are located in foreign countries, (2) not all reported earnings are currently repatriated to IMC and (3) the auditors' reports with respect to IMC and a significant affiliated company are qualified as to the ultimate realization of a significant investment in a mining property.

Since the Company's investment in IMC at December 31, 1976 was less than 20%, the Company has reflected its investment in IMC at cost and only included cash dividends received ($59,000) in income. During January 1977 the Company purchased additional IMC common shares bringing its investment up to $7,050,000; 21.4% of all IMC outstanding common shares.

JOS. SCHLITZ BREWING COMPANY
Notes to Financial Statements

(1) Investments—

At December 31, 1976 and 1975, investments in four Spanish companies, at cost, net of applicable reserves, were as follows:

	1976		1975	
	% Ownership	Amount	% Ownership	Amount
La Cruz del Campo	27%	$12,499,000	27%	$12,499,000
Henninger Espanola	30%	2,611,000	30%	2,975,000
Cerveceras Asociadas	15%	1,698,000	15%	2,273,000
Industrial Cervecera Sevillana	15%	773,000	15%	1,493,000
		$17,581,000		$19,240,000

In December, 1975, the Company and La Cruz del Campo, S.A., exchanged one half of their ownership in Cerveceras Asociadas, S.A., for a proportionate interest in Industrial Cervecera Sevillana, S.A. Damm, S.A., the second largest brewer in Spain, had a majority interest in Industrial Cervecera Sevillana, a brewery located in Seville, Spain. The Company did not account for this transaction in 1975 because information to determine appropriate values was not available. Unaudited financial data for Cerveceras Asociadas and Industrial Cervecera Sevillana were received during 1976 and based upon the continued operating losses of Cerveceras Asociadas, the 1975 loss of Industrial Cervecera Sevillana and the existing economic conditions in Spain, the Company wrote down its investment $970,000 by a charge to miscellaneous, net, in the 1976 statement of consolidated earnings. In addition, due to the continued operating losses of Henninger Espanola, Cerveceras Asociadas, and Industrial Cervecera Sevillana, during 1976 the Company wrote down its investment an additional $689,000 by a charge to miscellaneous, net, in the 1976 statement of consolidated earnings. This write-down represents the Company's share of the estimated 1976 operating losses of the three Spanish companies.

The unaudited information for the Spanish companies for the year 1976 indicated Cerveceras Asociadas, Henninger Espanola, and Industrial Cervecera Sevillana had a combined loss while La Cruz del Campo operated at a profit. La Cruz del Campo holds a majority interest in Henninger Espanola.

As of December 31, 1976, the carrying value of the Company's investments in the four Spanish companies was approximately equal to the reported book value of the companies. Spanish accounting principles do not conform to United States' practices and book value amounts include, among other matters, a $3,300,000 write-up of assets allowed under Spanish law.

UTAH INTERNATIONAL INC.
Notes to Financial Statements

3. Affiliated Companies

The composition of Utah's investment in affiliated companies at October 31, 1976, was as follows (in thousands):

Equity in undistributed earnings of affiliates—	
Included in retained earnings	$ 62,958
Included in deferred income taxes	3,536
	$ 66,494
Cost of investments	75,172
	$141,666

Below is a summary of the unaudited financial statements of Marcona Corporation (Marcona), Samarco Mineracao S.A. (Samarco) and Cyprus Pima Mining Company (Cyprus Pima), Utah's most significant affiliates, and of all affiliates combined as of October 31, 1976:

(in thousands)	Marcona (46%-Owned)	Samarco (49%-Owned)	Cyprus Pima (25%-Owned)	Total Affiliates
Current assets	$ 39,056	$ 5,054	$ 43,742	$115,049
Other assets	104,765	396,736	93,283	693,514
	$143,821	$401,790	$137,025	$808,563
Current liabilities	$ 33,300	$ 22,224	$ 20,872	$ 98,828
Long-term liabilities	8,461	257,558	26,221	378,331
Stockholders' equity	102,060	122,008	89,932	331,404
	$143,821	$401,790	137,025	$808,563
Revenue	$164,660	$ —	$ 95,414	$343,842
Net income (loss)	(10,790)	—	2,860	(7,346)
Utah's recorded share of—				
Stockholders' equity	$ 46,948	$ 59,784	$ 22,474	$141,666
Net income (loss)	(5,033)	—	705	(2,672)

On July 25, 1975, the Peruvian government expropriated the iron ore mining properties and facilities of Marcona Mining Company in Peru. Marcona Mining Company is a wholly owned subsidiary of Marcona. Utah's underlying share of the book value of Marcona's investment in the Peruvian properties was approximately $19.1 million which was net of approximately $5 million of income taxes previously provided by Utah on the undistributed earnings of Marcona. Subsequent to the expropriation, Marcona sustained additional losses which were deemed to be directly associated with the takeover by the Peruvian government. These losses related to Marcona-owned and chartered vessels which were involved in transporting ore from the Peruvian mine. Such losses, totaling approximately $4.7 million (Utah's share), were combined with Utah's share of the book value of Marcona's investment in the Peruvian properties as losses resulting from the expropriation. Accordingly, Utah wrote off such losses, totaling $23.8 million, as an extraordinary item during 1975.

On September 23, 1976, an intergovernmental agreement was reached between United States and Peruvian government representatives in settlement for the expropriated assets. The agreement provides for a $37 million payment to Marcona in the form of an interest-bearing promissory note to be paid from the proceeds of international financing being negotiated by the Peruvian government. In addition, the agreement provides for a quantity of iron ore pellets to be purchased by Marcona under a separate agreement for resale in the United States over a four-year period and a contract of affreightment covering the transportation of Peruvian ore. Marcona has confirmed its acceptance of this agreement, when carried out, as full settlement of its claims against Peru arising out of the expropriation. The agreement also relieves Marcona of any liabilities for the payment of taxes or other obligations to the Peruvian government. Marcona plans to record the $37 million when collected (expected before December 31, 1976) as an extraordinary gain net of the appropriate tax effect. Utah's share of such gain, net of tax effects, will similarly be recorded by Utah. Marcona intends to record income or losses resulting from the pellet purchase contract and the contract of affreightment as income from continuing operations when realized.

In September 1976, Utah acquired Marcona's 49% interest in Samarco at Marcona's cost. Samarco is developing an iron ore project in Brazil; shipments are expected to begin in July 1977. See Note 9 for a description of Utah's additional investment requirements and contingent liabilities related to Samarco.

UNCONSOLIDATED REAL-ESTATE PARTNERSHIPS

DILLINGHAM CORPORATION
Notes to Financial Statements

Investments at Equity

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Investments in Real Estate Partnerships

Included in investments in corporations and partnerships are $3,710,000 at December 31, 1976 and $4,731,000 at December 31, 1975 representing equity (varying from a nominal percentage up to

77%) in the underlying net assets of real estate limited partnerships. Mortgage notes receivable include $12,174,000 at December 31, 1976 and $14,935,000 at December 31, 1975 due from these partnerships, secured by mortgages on partnership properties. The Company or its subsidiaries are general partners in 31 such partnerships. The partnerships are organized for investment in and operations of apartment and office building complexes which facilities are managed and, in some cases, were constructed by the Company. As a general partner, the Company or its subsidiaries have made cash advances to cover and are contingently liable for unsecured long-term credit lines ($3,117,000 at December 31, 1976 and $5,250,000 at December 31, 1975) and certain operating liabilities other than mortgage debt of most of the partnerships. In addition, two of the partnership agreements include terms that in the event the operations do not generate sufficient funds, a subsidiary will make cash advances to the partnerships to cover cash deficits. Under these commitments $2,383,000 had been advanced as of December 31, 1976.

The following is an unaudited summary of the combined assets, liabilities and equity of the partnerships:

	December 31	
	1976	1975
	(In thousands)	
Assets		
Cash and receivables	$ 37,566	$ 26,973
Land	20,352	21,843
Buildings and depreciable assets, net	123,733	137,361
Other	3,206	4,401
	$184,857	$190,578
Liabilities and Equity		
Liabilities:		
Unsecured long-term credit lines	$ 3,117	$ 5,250
Mortgage loans payable	138,392	139,215
Advances by the Company:		
Secured	12,174	14,935
Unsecured	667	1,094
Other	6,560	4,848
	160,910	165,342
Equity:		
The Company	3,710	4,731
Limited partners	20,237	20,505
	23,947	25,236
	$184,857	$190,578

During 1976 these partnerships generated rental and other revenue aggregating $29,372,000. Total net losses were $2,076,000 of which $2,225,000 (before income taxes) was allocated to the Company. Comparable amounts in 1975 were $26,822,000, $2,847,000 and $2,172,000, respectively.

UTAH INTERNATIONAL INC.
Notes to Financial Statements

4. Joint Ventures and Partnerships

Below is a summary of the unaudited balance sheets of Harbor Bay Isle Associates, a partnership formed to develop a residential community in the San Francisco area, and of all joint ventures (other than mining joint ventures) and partnerships combined as of October 31, 1976:

(in thousands)	Harbor Bay Isle Associates (50%-Owned)[a]	Total Joint Ventures and Partnerships
Current assets	$ 304	$ 4,883
Other assets (principally land)	31,655	38,751
	$31,959	$43,634
Current liabilities	$ 1,186	$ 3,829
Long-term liabilities	26,543[b]	33,344
Net worth	4,230	6,461
	$31,959	$43,634

[a]Partnership agreement modifications made in 1975 provide that losses will be allocated in proportion to the partners' capital accounts; profits, if any, will be shared equally after partners' prior losses have been recovered. In effect Utah, since April 1974, has recorded 100% of the partnership losses.

[b]Long-term liabilities consist of assessment liens payable to a reclamation district, which issued bonds to raise funds for developing the project. Utah acquired substantially all of these bonds, and they are included in "Long-term receivables and other" in the accompanying consolidated balance sheet. Because of the difficulties experienced in developing this project, Utah has provided a significant reserve on its investment in the bonds.

APPENDIX A

ACCOUNTING SERIES RELEASE NO. 177
SEPTEMBER 10, 1975

NOTICE OF ADOPTION OF AMENDMENTS TO FORM 10-Q AND REGULATION S-X REGARDING INTERIM FINANCIAL REPORTING

A. GENERAL STATEMENT

In Securities Act Releases No. 5549 and No. 5579, the Commission proposed alternative methods of increasing disclosure of interim results by registrants. More than 700 letters of comments have been received in response to these proposals. In addition, the Commission held public hearings on the proposals and heard testimony from 14 witnesses. The Commission has given careful consideration to all comments and to the evidence received in the public hearings. It has now determined to adopt certain of the proposals, to modify others and propose revised rules for further comment and to withdraw other proposals, all as discussed below. The proposals for revised rules are contained in Securities Act Release No. 5612 dated September 10, 1975

Adoption of Amendments to Regulation S-X

The Commission has determined to adopt, substantially as proposed, a new rule [Rule 3-16(t)] which will require disclosure of selected quarterly financial data in notes to annual financial statements of certain registrants. In making this determination, the Commission has concluded that footnote disclosure of net sales, gross profit, income before extraordinary items and cumulative effect of a change in accounting, per share data based upon such income, and net income for each quarter within the two most recent fiscal years and any subsequent fiscal period for which income statements are presented, is appropriate for the protection of investors in the case of large companies whose shares are actively traded. The Commission believes that the greatest investor need for these data exists in the case of such companies whose activities are most closely followed by analysts and investors. Accordingly, registrants whose shares are not actively traded or whose size is below certain limits have been exempted from this rule at the present time. In making this judgment the Commission also recognized that the costs of such disclosure would be relatively a greater burden to smaller companies. Nevertheless, the Commission urges registrants who are exempt from the rule to consider the desirability of including such data in their annual reports. The exemption applies to all registrants who do not meet the following criteria;

A.1. The registrant has securities registered pursuant to Section 12(b) of the Exchange Act; or

2. The registrant has securities registered pursuant to Section 12(g) of the Exchange Act that are quoted on the National Association of Securities Dealers Automated Quotation System and these securities meet the Regulation T requirements for continued inclusion on the list of OTC margin stock; and

B. The registrant and consolidated subsidiaries had income after taxes but before extraordinary items and cumulative effect of a change in accounting of $250,000 for each of the last three fiscal years or had total assets at the last fiscal year end of $200,000,000 or more.

The Commission believes that such disclosures will materially assist investors in understanding the pattern of corporate activities throughout a fiscal period and it feels that such an understanding is important if financial statements are to serve their objective of allowing investors to develop reasonable expectations about the future prospects of enterprises in which they are investing or considering investment.[1] Presentation of such quarterly data will supply information about the trend of business operations over segments of time which are sufficiently short to reflect business turning points. Annual periods may obscure such turning points and may reflect a pattern of stability and growth which is not consistent with business reality. In addition, quarterly data will reflect seasonal patterns which are of significance to an investor's understanding of the business operations of a reporting entity.

Numerous commentators took issue with the Commission's view that the footnote information proposed be required by the proposals and adopted herein was necessary for investors. They suggested that interim results are materially affected by random events, that short period estimates are by their nature imprecise and that putting such data into annual financial statements will mislead by lending them an appearance of reliability which cannot in fact exist. In addition, numerous respondents suggested that if the Commission did believe that quarterly data should be presented to investors at the end of the year, this could best be achieved by including the quarterly data in management's analysis of the summary of operations or elsewhere in the annual report, but not in the notes to financial statements.

The Commission has concluded that it should not amend its proposal in response to these comments. While it recognizes that random events can materially affect quarterly results, it believes that Section (3) of Rule 3-16(t), which requires disclosure in the note of any unusual items occurring in any quarter disclosed, will enable investors to ascertain the effect of such items and hence not be misled. It also recognizes that short period estimates are imprecise, and it emphasized in Securities Act Release No. 5549 that it was not proposing any change in the traditional accounting practice of making the best estimate practicable at the time the estimate must be made, and then reflecting subsequent adjustments in the estimate in subsequent periods as the need became apparent. Estimates are a necessary part of all financial reporting, and since registrants have had many years experience in making the estimates required in quarterly reporting and investors have had equivalent experience in using the reports encompassing these estimates, the Commission is not prepared to conclude that including quarterly data in a footnote to the financial statements will create an impression of reliability which will mislead investors. In addition, Section (3) of Rule 3-16(t) requires the disclosure of the aggregate effect and the nature of year end or other adjustments which are material to the results of each quarter presented. This disclosure will permit investors to determine the nature and effect of substantial changes in estimates.

The Commission also does not agree that the required disclosure should only be made outside the financial statements. In general, it believes that significant financial disclosures about business operations during a period should be included in the financial statements for that period. The burden is therefore on those who believe that significant financial data should be outside the financial statements to demonstrate the reason for its exclusion. Commentators did not offer any compelling reasons to support their position in this regard. Accordingly, the Commission believes that it is appropriate to require disclosure in the notes to financial statements of those companies in which there is the most substantial public investor interest.

Involvement of Independent Public Accountants

The inclusion of interim data in the footnotes to annual financial statements necessarily will associate the independent public accountant with these data in some fashion. In its initial proposal in Securities Act Release No. 5549, the Commission indicated that it was not prepared to have these data labeled "unaudited." After receiving many comments and estimates of cost which suggested that an audit of interim data would be very costly to registrants, the Commission published an additional set of proposals (in Securities Act Release 5579) which would permit this note to be labeled "unaudited" and at the same time would set forth as an amendment to Rule 2-02 of Regulation S-X a set of limited review procedures which auditors would be expected to follow

[1]See the report of the Trueblood Committee appointed by the American Institute of Certified Public Accountants to study the objectives of financial statements.

when they were associated with a set of financial statements which included such an unaudited footnote.

After careful consideration of costs and benefits of auditor involvement, the Commission has determined to permit the required note to be identified as "unaudited." Even though this note will not be audited, independent accountants will be associated with such a note when they report on financial statements which include such a note. The Commission does not believe it is appropriate for independent accountants to be subjected to unknown responsibilities in connection with their association with this note. Accordingly, the Commission is proposing, in Securities Act Release No. 5612, dated this date, a slightly amended set of review and reporting procedures which the Commission believes will satisfactorily set forth its expectation as to the responsibilities of independent accountants who report on financial statements filed with it which include such a note. The Commission plans to adopt final standards for auditors' reports which spell out these expectations prior to the effective date of the amendment to Rule 3-16 adopted hereby.

The Commission notes, however, that the subject of auditor involvement with interim financial data has been under active consideration by the Auditing Standards Executive Committee of the American Institute of CPAs (AudSEC). It also notes that historically the Commission has not been required to set forth the standards and procedures which underlie an independent public accountant's report because the public accounting profession has developed appropriate standards and procedures to provide protection to the investing public who rely upon such reports.

The Commission believes that it is preferable to continue its past policy of permitting the accounting profession to determine the auditing standards and procedures underlying accountant's reports as long as this policy is consistent with the interests of investors. Accordingly, it urges AudSEC to continue its study of auditor involvement with interim financial data in the light of the Commission's determination that certain interim data shall be included in annual financial statements of certain registrants in a note labeled "unaudited" and the Commission's further determination that auditor association with these data will necessarily occur and the responsibilities for such association must be satisfactorily defined. If AudSEC adopts a Statement on Auditing Standards prior to December 10, 1975 which sets forth the standards and procedures to be followed by independent accountants in connection with the data in the unaudited note required by Rule 3-16(t), and the Commission is satisfied that these standards and procedures adequately protect the interests of investors, it is the intention of the Commission to withdraw the proposed sections of Rule 2-02(e) which set forth specific procedures of review and reporting and to indicate that the AudSEC statement identifies the "appropriate professional standards and procedures" presumed to have been followed by the reporting independent public accountant under Rule 2-02(e).

The Commission received many comments on the subject of auditor involvement, nearly all of which raised questions as to whether the benefits of such involvement would warrant the cost. The Commission has considered these comments with great care since it believes that it should not lightly impose additional costs on registrants and that the benefits of new requirements to present and prospective investors should outweigh any additional costs involved. Since the benefits of the increased involvement of independent accountants in interim reporting are not subject to quantification, and the measurement of costs includes many variables which are highly uncertain, the weighing of costs and benefits will inevitably require the exercise of subjective judgments rather than arithmetical computations.

In its releases proposing increased auditor involvement, the Commission specifically invited comments on the cost of its proposals to registrants. Many responses were received, but relatively few indicated that the respondent had undertaken any systematic research into the costs involved. Those that did report a systematic study of costs reported that the costs would vary depending on the nature of the registrant, but the most common estimates indicated that a quarterly review following the procedures set forth in the proposal would cost between 5% and 25% of the current annual audit fee. In the Commission's hearings, several of those making such estimates were asked whether the studies took into account any savings in year-end audit time which might result from quarterly reviews and they responded that no such savings had been included. In addition, several witnesses stated that current auditing procedures frequently included analytical reviews of results of time periods within the year in searching for unusual items which would require additional auditing steps, even though these reviews did not focus specifically on quarterly periods.

The Commission believes that as reviews of quarterly information become a regular part of the audit examination of public companies, auditors will revise the timing of their audit examinations so that they will perform procedures related to the testing of internal controls and the analytical review of internal financial reports on a regular basis throughout the year. In addition, programs encompassing regular analytical review should increase the efficiency of auditors in finding and focusing promptly on potentially troublesome areas in the audit. The Commission believes, therefore, that many of the costs included in the studies reported to the Commission will not prove to be incremental costs but will reduce the cost of the year-end audit examination. In addition, it is the Commission's view that many of the costs will be of a one time rather than a continuing nature since audit programs and corporate control systems will be improved promptly to keep costs at a minimum. The Commission does not suggest that the cost of auditor involvement in quarterly data will be trivial, but it does believe that some of the higher estimates supplied to it will not prove to be correct.

The benefits resulting from such increased costs cannot be quantified, but the Commission is satisfied that they will be substantial. While the new rules will not mandate the timely involvement of the independent accountant with quarterly reports, the Commission believes that it is likely that such involvement will occur so that management will be less likely to face the necessity of revising quarterly data at the time year-end statements are published. Either timely or retrospective involvement should increase the care and attention devoted to quarterly reports which will increase the likelihood that management will discover needed adjustments on a timely basis. In addition, management may be able to identify problem areas more promptly so that unusual charges and credits are not made so frequently in the last month of a fiscal year. Finally, the involvement of independent accountants will add the expertise of professional accountants with wide experience in reporting problems to the quarterly reporting process. This should improve individual company reporting and direct greater professional attention to the general problems of interim reporting.

The Commission has brought a number of enforcement actions involving quarterly reports and it has observed other cases where quarterly reports have required correction. In addition, it has noted the proponderance of Form 8-K filings covering unusual charges and credits to income being made late in the year. While these are not suggested to be evidence of systematic abuse in quarterly reporting, they do indicate that deficiencies exist. Although auditor involvement will not prevent all deficiencies, the Commission does believe that it will enhance the reliability of interim reports and reduce the likelihood of abuse. In the final analysis, however, the benefits of auditor involvement in quarterly data are expected primarily to result from improvement in the quality of interim reporting and the annual auditing process and only secondarily from the prevention of specific abuses currently perceived.

After appraising the costs and benefits, the Commission has determined that the benefits of mandatory involvement of independent accountants in quarterly data on the basis set forth in the rules adopted hereby substantially outweigh the costs thereof and that such involvement is required in the interests of investors.

In exempting certain registrants from these rules, the Commission has noted that the cost of auditor involvement will fall with the greatest relative severity on smaller registrants in which public investor interest is not of great magnitude. In these cases, the Commission believes that it is less clear that the benefits of auditor involvement with interim data outweigh the costs. Accordingly, it has not required such involvement for such registrants at the present time, although it will continue to study the question as it evaluates the experience gained from the rules adopted hereby.

Effective Date of Amendments to Regulation S-X

Because quarterly data have not previously been included in financial statements for a year and because the Commission recognizes that specific implementation of auditor involvement and improved systems of internal control relative to quarterly data may take time to achieve, the Commission is not requiring the inclusion of such data in financial statements for fiscal periods beginning prior to December 26, 1975. In addition, quarterly data will not be required for quarterly periods beginning prior to that date. Earlier implementation of the requirements by registrants is encouraged.

Inclusion of Quarterly Data in Financial Statements Included in Annual Reports to Stockholders

The rules adopted hereby require that large companies whose shares are actively traded include the disclosure of certain quarterly data in financial statements filed with the Commission. The Commission believes that these companies also should include this disclosure in financial statements furnished to stockholders.

Adoption of Amendments to Form 10-Q

The Commission has determined to adopt substantially increased requirements for the content of quarterly reports on Form 10-Q which will be applicable to all registrants. These requirements include condensed financial statements, a narrative analysis of results of operations, the approval of any accounting change by the registrant's independent public accountant, and a signature by the registrant's chief financial officer or chief accounting officer. In addition, the revised form permits additional financial disclosures deemed appropriate by management and permits management to state that financial data in the form has been reviewed by independent public accountants and to include as an exhibit to the form a letter from the independent public accountant in regard to this review.

The Commission originally proposed to require financial statements prepared in accordance with Regulation S-X except for the exclusion of certain footnote disclosure. A number of commentators suggested that such statements would be more detailed than required by investors and would be costly to prepare. Accordingly, the rule adopted provides that the financial statements furnished need only include the major captions set forth in Regulation S-X and permits the combination of such captions when certain materiality tests are met. The only subcaptions required by the rule are those which set forth the components of inventory (raw materials, work in process and finished goods), if applicable, since users of financial statements have indicated that these subcaptions are of considerable importance in evaluating the significance of changes in inventory. In addition, the rule permits a summarized statement of source and application of funds. The rule retains the original proposed provision that rules included in Regulation S-X which call for detailed footnote disclosures and schedules do not apply to financial statements filed in Form 10-Qs. A number of commentators indicated that the proposed language was not sufficiently specific since all footnote disclosures required in annual financial statements could be said to meet the test of being necessary to prevent the statements from being misleading. The Commission did not intend this interpretation, since it believes that detailed footnote disclosures required annually need not be updated quarterly in the absence of highly unusual circumstances. It has attempted to clarify the language to make its intent clear although it has retained in the rule the general obligation to make disclosures adequate to make the information presented not misleading. This is a requirement for all filings with the Commission and has been included in Form 10-Q since the time of its adoption.

The new rules require income statements for the most recent quarter, the equivalent calendar quarter in the preceding year and year-to-date data for both years. Condensed funds statements are required on a year-to-date basis for the current and prior year. In addition, registrants are permitted to show income statement data and funds statement data for the twelve month period ending at the interim reporting date for both years if they elect to do so. Balance sheets are required as of the end of the most recent quarter and at the same date in the preceding year.

In addition, the new rules require increased pro forma information in the case of business combinations accounted for as purchases, conformity with the principles of accounting measurement set forth in the Accounting Principles Board opinion on interim financial reports, and increased disclosure of accounting changes.

In connection with accounting changes, a letter from the registrant's independent public accountant is required to be filed in which the accountant states whether or not the changes is to an alternative principle which in his judgment is preferable under the circumstances. A number of accountants objected to this requirement on the grounds that no standards exist for judging preferability among generally accepted accounting principles and that authoritative accounting principles only require that management justify that a change is to a preferable method. The Commission believes that professional accounting judgment can be applied to determine whether an alternative accounting principle is preferable in a particular set of circumstances. Since a substantial burden of proof falls upon management to justify a change, the Commission believes that the burden has not been met unless the justification is sufficiently persuasive to convince an independent professional accounting expert that in his judgment the new method represents an improved method of measuring business operations in the particular circumstances involved. The proposed rule has therefore been adopted as proposed.

In addition to financial statements, a new instruction to Form 10-Q requires management to provide a narrative analysis of the results of operations. The Commission's original proposal required such an analysis to follow the guidelines set forth in Guide 1 of "Guides for Preparation and Filing of Reports and Registration Statements under the Securities Exchange Act of 1934." Commentators pointed out that this Guide was designed to apply to a summary of earnings covering a period of several years and that some of the tests set forth in that Guide were not precisely applicable to interim reporting on Form 10-Q. While the Commission believes that the general principles set out in Guide 1 would be relevant to a quarterly analysis, it recognizes that certain quantitative tests are inapplicable, and that the shorter period covered by interim reports may have an impact on the types of analysis which will be most meaningful to investors. Accordingly, this instruction has been redrafted to make it specifically applicable to Form 10-Q and to give more general guidance to registrants rather than setting down quantitative tests. The new instruction requires explanation of the reasons for material changes in the amount of revenue and expense items from one quarter to the next (even though the preceding quarter may not be reported as such in the Form 10-Q), between the most recent quarter and the equivalent quarter in the preceding year, and between the year-to-date data and comparable data for the prior year. While such explanations are to be presented in narrative form, it is expected that they will include quantitative data in explaining the reasons for changes. In addition to requiring an analysis of operations, the new form includes an instruction which permits the registrant to furnish any additional information which management believes will be of significance to registrants. This same instruction requires the registrant to indicate whether a Form 8-K was filed during the quarter reporting either unusual charges or credits to income or a change of auditors.

Under the new rules, Form 10-Q must be signed by either the chief financial officer or the chief accounting officer of the corporation. This requirement was included in recognition of the fact that the data in the form were primarily financial, and that it was appropriate to emphasize the responsibility of the chief financial or accounting officer for the representations explicit and implicit in the filing. This signature will not relieve other corporate officers of their responsibilities.

Rescission of Form 7-Q

Since the rules and instructions adopted herein for Form 10-Q require a condensed quarterly statement of source and application of funds for all companies, the separate form (Form 7-Q) which sets forth this requirement for certain real estate companies is no longer required. Accordingly, Form 7-Q and the rules specifying its application are rescinded.

Review of Form 10-Q Data by Independent Public Accountant

The financial information included in Form 10-Q need not be reviewed prior to filing by an independent public accountant. However, certain registrants will be required to include certain data contained in the Form 10-Q in an unaudited note to financial statements for the year. Such a note must be reviewed by an independent public accountant in accordance with prescribed professional standards in connection with the annual audit. Since review procedures must be applied to quarterly data in connection with the annual audit of such registrants in any event, the additional cost of these registrants of having a review made on a timely basis should be small, particularly if the annual audit is planned with such a review in mind.

The Commission believes that all registrants would find it useful and prudent to have independent public accountants review quarterly financial data on a timely basis during the year prior to the filing of Form 10-Q and it encourages registrants to have such a review made. While such a review does not represent an audit and cannot be relied upon to detect all errors and omissions that might be discovered in a full audit of quarterly data, it will bring the reporting, accounting and analytical expertise of independent professional accountants to bear on financial reports included in Form 10-Q and therefore should increase the quality and the reliability of the data therein in a cost-effective way.

Instruction K of Form 10-Q permits registrants to state that an independent accountant has reviewed the financial information included therein if the accountant has reviewed the data in accordance with established professional standards and procedures for such a review. In Release No. 33-5612 of this date the Commission has proposed for comment such professional standards and procedures and it plans to adopt such standards prior to the effective date of the Form 10-Q revisions. The Commission notes, however, that AudSEC has issued for exposure a set of proposed standards and procedures for such a review, and if professional standards are adopted which the Commission believes are satisfactory to protect the interests of investors, it is the intention of the Commission to withdraw its proposed standards and rely on the standards established by AudSEC.

If the registrant has the independent public accountant perform such a review and elects to state this fact, the statement must also indicate whether all adjustments or additional disclosures proposed by the independent accountant have been reflected in the data presented, and if not, why not.

In addition, if the registrant states that such a review has been made, there may (but need not be) included as an exhibit to the form a letter from the registrant's independent accountant confirming or otherwise commenting upon the registrant's representations and making such other comments as the independent accountant deems appropriate.

A number of commentators have indicated that they do not believe that independent accountants should be permitted to associate their names with data on the basis of limited review procedures. This position is also taken in the AudSEC exposure draft on interim reviews referred to above. This view is based on the concern that users of the accountant's report will not be able to distinguish between a report covering an audit conducted in accordance with generally accepted auditing standards and a report on a limited review following specified procedures, and hence will be misled. The Commission has considered these comments, but is not prepared to conclude that investors will be unable to distinguish appropriately between different types of reports. It believes that an accountant's report on a limited review may provide significant and useful information to investors and that such reports should be encouraged. At the present time, however, the Commission does not propose to require such reports in connection with Form 10-Q filings.

In Securities Act Release No. 5579, the Commission proposed to amend the facing sheet of Form 10-Q to require registrants to indicate by check mark whether or not financial statements required by the form had been reviewed by independent public accountants. A number of commentators suggested that such a requirement would imply that a review was mandatory and that a "no" answer would indicate a deficiency in the form. Others commented that a simple yes or no answer on the front of the form would oversimplify a complex matter and would increase the likelihood of investors being misled.

The Commission has concluded that at the present time, the proposed check mark on the facing sheet of Form 10-Q is not necessary and it has determined not to adopt the amendment to the facing sheet.

Amendments to Forms S-7 and S-16

In Securities Act Release No. 5579 the Commission proposed amendments to Forms S-7 and S-16 which would have had the effect of permitting the use of Form S-7 by registrants not presently qualified to do so if the financial information included in their Form 10-Q filings was reviewed by independent public accountants and this fact was stated on Form 10-Q. Many commentators suggested that the involvement of public accountants on a review basis was not an equivalent test as compared to the current tests of financial strength and stability now required for the use of Form S-7. With few exceptions, they recommended that the amendments not be adopted.

The Commission is concerned about the cost of registering securities for sale and it is desirous of keeping such costs at a minimum consistent with the protection of investors. Accordingly, the Commission has approved publication for comment amendments to Forms S-7 and S-16. While such proposed amendments do not include timely auditor involvement as one of the criteria for use of the forms, they are designed to broaden the availability of the use of the forms by a larger number of companies.

Effective Date of Form 10-Q Amendments

The Commission has determined to make changes in Form 10-Q adopted hereby effective for Form 10-Q reports filed covering periods beginning after December 25, 1975, but in no event shall disclosure of comparative balance sheet data and source and application of funds data be required for interim periods beginning prior to that date.

B. AMENDMENTS ADOPTED

The text of the amendments to Regulation S-X, Form 10-Q and Form 7-1 and related rules follows (amendments are in italics or designated as new; deletions are bracketed or designated as deleted.)

I. Regulation S-X

Rule 2-02. Accountants' Reports.

(a) through (d) (No change)

(e) *Association with unaudited note covering interim financial data.* (New paragraph)

If the financial statements covered by the accountant's report designate as "unaudited" the note required by Rule 3-16(t), it shall be presumed that appropriate professional standards and procedures with respect to the data in the note have been followed by the independent accountant who is associated with the unaudited footnote by virtue of reporting on the financial statements in which it is included.

* * * * *

Rule 3-16 General Notes to Financial Statements. (See Release No. AS-4.)

* * * * *

(t) *Disclosure of selected quarterly financial data in notes to financial statements.* (New rule)

Exemption. This rule shall not apply to any registrant that does not meet the following conditions:

(a) The registrant (1) has securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 or (2) has securities registered pursuant to Section 12(g) of that Act which also (i) are quoted on the National Association of Securities Dealers Automated Quotation System and (ii) meet the requirements for continued inclusion on the list of OTC margin stocks set forth in Section 220.8(i) of Regulation T of the Board of Governors of the Federal Reserve System; and

(b) The registrant and its consolidated subsidiaries (1) have had a net income after taxes but before extraordinary items and the cumulative effect of a change in accounting, of at least $250,000 for each of the last three fiscal years; or (2) had total assets of at least $200,000,000 for the last fiscal year end.

(1) Disclosure shall be made in a note to financial statements of net sales, gross profit (net sales less costs and expenses associated directly with or allocated to products sold or services rendered), income before extraordinary item and cumulative effect of a change in accounting, per share data based upon such income, and net income for each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented.

(2) When the data supplied in (1) above vary from the amounts previously reported on the Form 10-Q filed for any quarter, such as would be the case when a pooling of interests occurs or where an error is corrected, reconcile the amounts given with those previously reported describing the reason for the difference.

(3) Describe the effect of any disposals of segments of a business, and extraordinary, unusual or infrequently occurring items recognized in each full quarter within the two most recent fiscal years and any subsequent interim period for which income statements are presented, as well as the aggregate effect and the nature of year-end or other adjustments which are material to the results of that quarter.

(4) Where this note is part of financial statements which are presented as audited, it may be designated "unaudited."

* * * * *

Article 11A. Statement of Source and Application of Funds.

Rule 11A-01. Application of Article 11A.

This article shall be applicable to statements of source and application of funds filed pursuant to requirements in registration and reporting forms under the Securities Act of 1933 and the Securities Exchange Act of 1934 [, except that companies which are required to file quarterly reports on Form 7-Q shall comply, in all filings, with the requirements as to type, form and content of a funds statement specified in that form].

II. *Rule 13a-13. Quarterly Reports on Form 10-Q.*

(a), (b)(1), (c) and (d) (No change)

(b)(2) (Deleted)

(b)(3), (4) and (5) become (b)(2), (3) and (4), respectively.

III. *Rule 13a-15. Quarterly Reports of Certain Real Estate Companies on Form 7-Q.*

(This rule is rescinded.)

IV. *Rule 15d-13. Quarterly Reports on Form 10-Q.*

(a), (b)(1), (c) and (d) (No change)

(b)(2) (Deleted)

(b)(3), (4) and (5) become (b)(2), (3) and (4), respectively.

V. *Rule 15d-15. Quarterly Reports of Certain Real Estate Companies on Form 7-Q.*

(This rule is rescinded.)

VI. *Form 7-Q. For Quarterly Reports of Certain Real Estate Companies Under Section 13 or 15(d) of the Securities Exchange Act of 1934.*

(This form is rescinded.)

VII. *Form 10-Q. For Quarterly Reports Under Section 13 or 15(d) of the Securities Exchange Act of 1934.*

Instructions A through G (No change)

H. *Financial Statements.* [Presentation of Financial Information]

(a) (Existing paragraph deleted) (New rule) The registrant shall furnish an income statement, balance sheet and statement of source and application of funds for the periods set forth in (b) below. These statements shall follow the general form of presentation set forth in Regulation S-X with the following exceptions:

(1) Balance sheets and income statements shall include only major captions (i.e., numbered captions) set forth in Regulation S-X, with the exception of Inventories where data as to raw materials, work in process and finished goods shall be included, if applicable. Where any major balance sheet caption is less than 10% of total assets, and the amount in the caption has not increased or decreased by more than 25% since the previous balance sheet presented, the caption may be combined with others. When any major income statement caption is less than 15% of average net income for the most recent three years and the amount in the caption has not increased or decreased by more than 20% as compared to the next preceding comparable income statement, the caption may be combined with others. In calculating average net income, loss years should be excluded. If losses were incurred in each of the most recent three years, the average loss shall be used for purposes of this test. Notwithstanding these tests, Rule 3-02 of Regulation S-X applies and *de minimis* amounts therefore need not be shown separately.

(2) The statement of source and application of funds may be abbreviated, starting with a single figure of funds provided by operations and showing other sources and applications individually only when they exceed 10% of the average of funds provided by operations for the most recent three years. Notwithstanding this test, Rule 3-02 of Regulation S-X applies and *de minimis* amounts therefore need not be shown separately.

(3) Rules 3-08 and 3-16 of Regulation S-X and other requirements which call for detailed footnote disclosure and schedules shall not apply. As with all information filed with the Commission, however, disclosures must be adequate to make the information presented not misleading.

A company in the promotional or development stage to which paragraph (b) of Rule 5A-01 of Article 5A of Regulation S-X is applicable shall furnish the information specified in Rules 5A-02, 5A-03, 5A-04 and 5A-06 of Regulation S-X in lieu of the above financial statement requirements

(b) (Existing paragraph deleted) (New rule) The condensed financial statements shall be provided for periods set forth below:

(1) The condensed income statement shall be presented for the most recent fiscal quarter, for the period between the end of the last fiscal year and the end of the most recent fiscal quarter, and for corresponding periods of the preceding fiscal year. It also may be presented for the cumulative twelve month period ended during the most recent fiscal quarter and for the corresponding period of the preceding fiscal year.

(2) The balance sheet shall be presented as of the end of the most recent fiscal quarter and for the end of the corresponding period of the preceding fiscal year. However, balance sheets for dates prior to December 26, 1975, are not required.

(3) The statement of source and application of funds shall be presented for the period between the end of the last fiscal year and the end of the most recent fiscal quarter, and for the corresponding period of the preceding fiscal year. It also may be presented for the cumulative twelve month period ended during the most recent fiscal quarter and for the corresponding period of the preceding fiscal year.

(c) (First sentence of existing paragraph is deleted.) For registrants engaged in the seasonal production and the seasonal sale of a single-crop agricultural commodity, the [summarized financial information may include information] *income statement may be presented* for the twelve months ended with the current interim quarter, with comparative data for the corresponding period of the preceding fiscal year in place of the current quarter and year-to-date information specified by [(a)] *(b)(1)* above.

(d) If, during the current period specified in [(a)] *(b)* above, the registrant or any of its consolidated subsidiaries, entered into a business combination treated for accounting purposes as a pooling of interests, the [results of operations reported herein—] *interim financial statements* for both the current year and the preceding year [—] shall reflect the combined results of the pooled businesses. Supplemental disclosure of the separate results of the combined entities for periods prior to the combination shall be given, with appropriate explanations.

(e) In case the registrant has disposed of any significant portion of its business [or has acquired a significant amount of assets in a transaction treated for accounting purposes as a purchase,] during any of the periods covered by the report, the effect thereof on revenues and net income—total and per share—for all periods shall be disclosed. *In addition, where a material business combination accounted for as a purchase has occurred during the current fiscal year, pro forma disclosure shall be made of the results of operations for the current year up to the date of the end of the most recent fiscal quarter (and for the comparable period in the preceding year) as though the companies had combined at the beginning of the period being reported on. This pro forma information should as a minimum show revenue, income before extraordinary items and the cumulative effect of accounting changes, such income on a per share basis and net income.*

(f) (Existing paragraph deleted) (New rule) The financial statments to be included in this report shall be prepared in conformity with the standards of accounting measurement set forth in Accounting Principles Board Opinion No. 28 and any amendments thereto adopted by the Financial Accounting Standards Board. In addition to meeting the reporting requirements for accounting changes specified therein, the registrant shall state the date of any change and the reasons for making it. In addition, in the first Form 10-Q filed subsequent to the date of an accounting change, a letter from the registrant's independent accountants shall be filed as an exhibit indicating whether or not the change is to an alternative principle which in his judgment is preferable under the circumstances; except that no letter from the accountant need be filed when the change is made in response to a standard adopted by the Financial Accounting Standards Board which requires such change.

(g) (Existing paragraph deleted) (Formerly paragraph k) If appropriate, the [summary] *income statement* shall [be prepared to] show earnings *per share and dividends per share* applicable to common stock [Per share earnings and dividends declared for each period of the summary shall be included] and the basis of the *earnings per share* computation *shall be* stated together with the number of shares used in the computation. The registrant shall file as an exhibit a statement setting forth in reasonable detail the computation of per share earnings, unless the computation is otherwise clearly set forth in the report.

(h) and (i) (No change)

(j) (Deleted)

(k) (Now becomes (g).)

I. (New rule) *Management's Analysis of Quarterly Income Statements.* (Existing Instruction I becomes Instruction L)

The registrant shall provide a narrative analysis of the results of operations explaining the reasons for material changes in the amount of revenue and expense items between the most recent quarter and the quarter immediately preceding it, between the most recent quarter and the same calendar quarter in the preceding year, and, if applicable, between the current year to date and the same calendar period in the preceding year. Explanations of material changes should include, but not be limited to, changes in the various elements which determine revenue and expense levels such as unit sales volume, prices charged and paid, production levels, production cost variances, labor costs and discretionary spending programs. In addition, the analysis should include an explanation of the effect of any changes in accounting principles and practices or in the method of their application that have a material effect on net income as reported.

J. (New rule) *Other Financial Information.* (Existing Instruction J become Instruction N)

The registrant may furnish any additional information related to the periods being reported on which, in the opinion of management, is of significance to investors, such as the seasonality of the company's business, major uncertainties currently facing the company, significant accounting changes under consideration and the dollar amount of backlog of firm orders. In addition, the registrant shall indicate whether any Form 8-K was required to be filed reporting any material unusual charges or credits to income during the most recently completed fiscal quarter or whether any Form 8-K was required to be filed during that period reporting a change in independent accountants.

K. (New rule) *Review by Independent Public Accountant.*

The financial information included in this form need not be reviewed prior to filing by an independent public accountant. If, however, a review of the data is made in accordance with established professional standards and procedures for such a review, the registrant may state that the independent accountant has performed such a review. If such a statement is made, the registrant shall indicate whether all adjustments or additional disclosures proposed by the independent accountant have been reflected in the data presented, and, if not why not. In addition, a letter from the registrant's independent accountant confirming or otherwise commenting upon the registrant's representations and making such other comments as the independent accountant deems appropriate may be included as an exhibit to the form.

L. *Filing of Other Statements in Certain Cases.* (Formerly Instruction I) (No change)

M. *Sales of Unregistered Securities (Debt or Equity).* (Formerly Part C)

The information called for herein shall be given as to each "security" as defined in Section 2(1) of the Securities Act of 1933. If the information called for has been previously reported on another form, it may be incorporated by a specific reference to the previous filing.

Give the following information as to all securities of the registrant sold by the registrant during the fiscal quarter, which were not registered under the Securities Act of 1933, in reliance upon an exemption from registration provided by Section 4(2) of that Act. Include sales of the registrant's reacquired securities as well as new issues, securities issued in exchange for property, services or other securities, and new securities resulting from the modification of outstanding securities:

(1) Give the date of sale, and the title and amount of the registrant's securities sold;

(2) Give the market price on the date of sale, if applicable;

(3) Give the names of the brokers, underwriters or finders, if any. As to any securities sold but which were not the subject of a public offering, name the persons or identify the class of persons to whom the securities were sold;

(4) As to securities sold for cash, state the aggregate offering price and the aggregate underwriting discounts, brokerage commissions, or finder's fees. As to any securities sold otherwise than for cash, state the nature of the transaction and the nature and aggregate amount of consideration received by the registrant;

(5) Indicate the section of the Act or rule of the Commission under which exemption from registration was claimed, and state briefly the facts relied upon to make the exemption available; and

(6) State whether the securites have been legended and stop-transfer instructions given in connection therewith, and if not, state the reasons why not.

N. *Signature and Filing of Report.* (Formerly Instruction J)

Eight copies of the report shall be filed with the Commission. At least one copy of the report shall be filed with each exchange on which any class of securities of the registrant is listed and registered. At least one copy of the report filed with the Commission and one copy filed with each such exchange shall be manually signed *on the registrant's behalf by a duly authorized officer of* *the registrant and by the principal financial officer or chief accounting officer of the registrant.* Copies not manually signed shall bear typed or printed signatures.

A. *Summarized Financial Information*
(Existing Part A deleted)

B. *Capitalization and Stockholders' Equity*
(Existing Part B deleted)

C. *Sales of Unregistered Securities (Debt or Equity)*
Part C becomes general Instruction M.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	______________________ (Registrant)
Date ______________________	______________________ (Signature)*
Date ______________________	______________________ (Signature)*

*Print name and title of the signing officer under his signature.

* * * * *

These amendments are adopted pursuant to authority in Sections 6, 7, 8, 10 and 19(a) of the Securities Act of 1933; Sections 12, 13, 15(d) and 23(a) of the Securities Exchange Act of 1934; and Sections 5(b), 14 and 20(a) of the Public Utility Holding Company Act of 1935.

The amendments of Rule 11A-01 of Regulation S-X, Exchange Act Rules 13a-13, 13a-15, 15d-13, 15d-15 and Forms 7-Q and 10-Q will be effective for reports filed for periods beginning after December 25, 1975, but in no event shall comparative balance sheet data or source and application of funds data be required for interim periods beginning prior to December 25, 1975. Rules 2-02(e) and 3-16(t) of Regulation S-X shall be applicable to financial statements for all fiscal periods beginning subsequent to December 25, 1975, but in no event shall disclosure of quarterly data be required for quarters beginning prior to that date.

By the Commission.

George A. Fitzsimmons
Secretary

APPENDIX B

ACCOUNTING SERIES RELEASE NO. 190
MARCH 23, 1976

NOTICE OF ADOPTION OF AMENDMENTS TO REGULATION S-X REQUIRING DISCLOSURE OF CERTAIN REPLACEMENT COST DATA

A. GENERAL STATEMENT

In Securities Act Release No. 5608 issued August 21, 1975, the Commission proposed for comment amendments to Regulation S-X which would require footnote disclosure of certain financial data regarding current replacement cost. These proposals were designed to enable investors to obtain more relevant information about the current economics of a business enterprise in an inflationary economy than that provided solely by financial statements prepared on the basis of historical cost. More than 350 letters of comment have been received on the proposals and after giving these comments careful consideration, the Commission has determined to adopt the proposals in somewhat revised form. In addition, the Commission has decided to create an advisory committee to assist its staff in providing guidance to registrants in the problems of implementing this new rule.

The new rule as adopted requires registrants who have inventories and gross property, plant and equipment which aggregate more than $100 million and which comprise more than 10% of total assets to disclose the estimated current replacement cost of inventories and productive capacity at the end of each fiscal year for which a balance sheet is required and the approximate amount of cost of sales and depreciation based on replacement cost for the two most recent full fiscal years. In addition, registrants are required to disclose the methods used in determining these amounts and to furnish any additional information of which management is aware and believes is necessary to prevent the information from being misleading. This information may be presented either in a footnote to the financial statements or in a separate section of the financial statements following the notes. In either place, the information may be designated as "unaudited."

In requiring these data, the Commission is aware that it is requiring companies to make disclosures of costs which cannot be calculated with precision. They must be estimated on the basis of numerous assumptions which may vary over time and from company to company and through the use of techniques which are not so fully developed that they can be standardized at the present time, if ever. This is because estimates of current replacement cost must be made within the framework of each registrant's economic situation and because there are difficult conceptual and empirical judgments which must be made in the light of different specific factual circumstances in developing the data. Nevertheless, the Commission believes that such data are important and useful to investors and are not otherwise obtainable. It feels that imprecision, if properly explained, will not make the data misleading. The Commission encourages registrants to supplement the required disclosures with information which management believes will be helpful to investors in understanding the impact of price changes and other current economic conditions on reported results.

In recognition of the imprecise nature of the data, the Commission is proposing for comment a "safe harbor" rule designed to recognize in a rule the Commission's view that if such data have a reasonable basis, are prepared with reasonable care and in good faith and are presented with adequate disclosure the data do not constitute an "untrue statement of a material fact" or a "manipulative, deceptive or fraudulent device."

Decision not to Delay

The Commission was urged by many commentators to delay the adoption of rules (or at least the effective date) until the means of compliance with the rules could be spelled out with precision. The Commission has concluded that such delay is not appropriate in general, although it has permitted a one year delay in effectiveness of the rule for mineral resources in the extractive industries. This was done in recognition of the particularly severe implementation problems for such assets and in the light of the expressed willingness of a leading trade association in the largest of these industries to undertake a major research effort within this year to resolve such problems. In addition, a one year delay has been permitted in effectiveness for foreign assets located outside the North American continent and the European Economic Community if certain specific disclosures relating to such assets are made.

The Commission's judgement that delay is not appropriate is based on a number of factors. First, it believes that under current economic conditions, data about the impact of changes in the prices of specific goods and services on business firms is of great significance to investors in developing an understanding of the current operations of any firm. While the current general rate of inflation has been reduced from 1974 levels, it is still at a level such that unsupplemented historical cost based data do not adequately reflect current business economics. Further, in an inflationary economy specific costs and prices which may affect a business change more rapidly than the general price level. These factors make the impact of delay more severe than would be the case in a time of price stability.

In addition, as a practical matter, it would never be possible for the Commission to anticipate every possible circumstance that may be faced in the application of this new disclosure rule. This is particularly true since the rule covers new ground and requires subjective judgments in its application. Accordingly, the Commission believes that various approaches taken in implementing the rule should be viewed as experimental, and that alternative approaches will be acceptable as long as the methods used are fully described and are applied in good faith and with reasonable care. There does not seem to be any persuasive reason, therefore, to deny these data to investors while experimentation in alternative techniques takes place.

By requiring full disclosure of the approaches used and permitting considerable flexibility in the way in which the data are displayed, the Commission is confident that it has provided sufficient latitude so that registrants will be able to communicate effectively the meaning of the data to investors. Registrants may, for example, present the data in supplemental financial statements, show estimates in terms of ranges rather than single figures, and discuss the imprecisions inherent in the data. They may describe historical relationships between costs and selling prices, point out the cost savings and any incremental costs and changed economic lives associated with new equipment, indicate their plans for the replacement or non-replacement of assets, and present any other information which they believe will assist investors in understanding the impact of changing prices and inflation in general on the registrant. This may include a discussion of possible favorable effects of inflation on the firm, such as the benefits from repaying debt in less valuable dollars and the possible benefits of operating leverage in an inflationary environment.

While certain standards and guidelines for application of this rule may be developed after experimentation has taken place, it is highly unlikely that a totally uniform set of procedures can ever be developed which will make the implementation of the rule a mechanical process.

Creation of Advisory Committee to Assist in Implementation

Nevertheless, the Commission recognizes that it is important that registrants receive guidance on implementation problems and that experience in this regard is shared. Accordingly, it has determined to appoint an advisory committee composed of persons working with the problems of implementation to meet on a regular basis with the staff of the Commission to consider problems raised by registrants in complying with the rule. The composition and procedures of this committee will be announced shortly. From these meetings and from its other experiences in dealing with registrants, the staff will publish staff accounting bulletins which set forth its judgments. The first staff accounting bulletin on this subject which responds to questions raised in letters of comment on the proposal and to problems arising from the staff's experience in participating in pilot programs by business firms is being published simultaneously with the issuance of this release.

In addition to its own efforts, the Commission believes that it would be useful for industry groups and associations to consider specialized problems in the application of replacement cost concepts to their areas of interest. In this connection, such groups may undertake to develop specific price indices applicable to particular classes of assets and suggest uniform industry-wide reporting approaches. The Commission staff would be willing to lend such assistance as it can to such efforts.

Analysis of Costs and Benefits

The release which accompanied the proposed rules specifically requested data as to the cost of compliance. Many respondents expressed concern about costs, but only a small number made specific estimates. Those estimates varied widely, and in general the cost estimates supplied by companies which had implemented replacement cost systems or undertaken pilot studies were substantially below those which had not. This suggests that as companies take steps to implement the rules adopted herein, they will find that the cost of compliance will be less than that estimated. Nevertheless, the Commission recognizes that the cost of implementing this rule will be significant, particularly in the first year of preparing the necessary data. It also seems clear that the cost will be proportionately higher for small companies with less sophisticated accounting systems.

The Commission has carefully considered the cost of implementation and weighed it against the need of investors for replacement cost information. It has concluded that in the case of companies of large size which generally have the largest public investor interest, the data are of such importance that the benefits of disclosure clearly outweigh the costs of data preparation. In the case of smaller companies where the cost burden is proportionately greater and the extent of public investor interest is proportionately less, the balance between economic costs and benefits is less clear. Accordingly, the Commission has determined initially to exempt from the rule companies whose inventories and gross property, plant and equipment aggregate less than $100 million. While it urges such companies to make appropriate disclosure of the effect of specific price changes and inflation in general on their operations, it is not at this time requiring them to make the specific disclosure required by this rule. As experience is gained with the costs of implementing the rule and the benefit of the information to investors, the Commission will consider the desirability of eliminating or amending the exemption.

In addition, the Commission has concluded that companies whose inventories and gross properties comprise less than 10% of total assets need not make the disclosure since in the case of such companies the effects of such disclosure on financial statements would generally be immaterial.

Inclusion of Data in Financial Statements and Auditor Responsibility

The Commission also asked for specific comment on whether the required data should be audited. Most commentators suggested that due to both cost considerations and the lack of articulated standards, it would be undesirable to require the replacement cost information to be audited. Many advocated that the data be removed from the financial statements and included elsewhere in annual reports and filings.

In response to these comments, the Commission has concluded that the required data need not be audited and it accordingly will permit the required information to be labeled "unaudited." It does not believe, however, that the information should be removed from the financial statements. As it has previously stated,[1] it believes that significant financial disclosures about business operations during a period should generally be included in the financial statements for that period, and it does not see any compelling reasons for excluding this information. In a business world characterized by uncertainty, it is necessary to recognize that many estimates based on subjective judgments must be included in financial statements and that appropriate means of describing the uncertainties and the lack of precision in the data must be found.[2]

While the original proposal required that the data be displayed in a footnote, the Commission recognizes that in some circumstances the required data when supplemented by additional disclosures explaining the basis for its preparation and other information deemed appropriate by management may be of considerable length and include substantial data. Both because of its length and its nature registrants may feel that it should not be included in the notes to the financial statements. Accordingly, the adopted rule permits the disclosures either in the footnote or in a separate section of the financial statements which follows the notes and is appropriately labeled. If such a separate section is used, a brief cross reference in the notes (such as in the note on accounting policies) would be appropriate.

The unaudited footnote or separate section of the financial statements containing the data will be a part of financial statements reported on by independent accountants. Accordingly, the independent accountant will be associated with the replacement cost information even though it is unaudited. The Commission urges the Auditing Standards Executive Committee of the American Institute of Certified Public Accountants to develop appropriate standards applicable to the auditor in the case of such association.

Non-Preemption of Financial Accounting Standards Board

A number of those commenting upon the proposal expressed concern that the rules if adopted would preempt the Financial Accounting Standards Board (FASB) and possibly the conclusions of the Commission's general study of financial disclosure now under way. The Commission does not believe that these concerns are merited.

In December 1974, the FASB issued an exposure draft of a statement which would require financial statements to include supplemental data in which historical costs were adjusted for changes in the general price level. In the Commission's proposal, it noted that general price level adjustments might be used either with historical cost or current replacement cost financial data. Accordingly, it did not and does not view its proposal as competitive with that of the FASB. In fact, in implementing the Commission's rule, some registrants may wish to use data regarding changes in the general price level as part of the analysis of reasons for changes in replacement costs. At the present time, however, the Commission does not propose to require the presentation of data restated for changes in the general purchasing power of the monetary unit.

Similarly, the Commission does not believe its new requirements prejudge any conclusions which may arise from the FASB's study of the conceptual framework of financial statements. As it noted in its original proposal, the Commission believes that fundamental changes in the basic accounting model should come about only after careful study by the FASB. It believes that experimentation with replacement cost information of the sort that will result from the implementation of this rule will materially assist the FASB in its study as well as providing meaningful supplemental disclosure to investors in the interim.

Finally, the Commission does not feel that adoption of this rule will have any adverse effect on its own broad study of financial disclosure. One of the reasons for the study was the concern

[1] Accounting Series Release No. 177.

[2] Accounting Series Release No. 166.

expressed by some that the Commission's requirements emphasized objective disclosure to the exclusion of relevant information. Certainly this rule will give the study group the opportunity to observe the response of registrants and investors to a requirement for non-precise subjective disclosure. The rule will of course be part of the total framework studied and its adoption at this time does not exclude it from consideration in the study.

Non-inclusion of Other Current Cost and Value Data

Some commentators on the proposed rule objected to its partial approach. They suggested that data be required concerning the current value of other assets and liabilities and the effect of inflation on monetary items held by the company. The Commission recognizes that its rule is a limited one and does not deal either with all effects of inflation on financial position and operations, or with the current value of all assets and liabilities. Its primary objective, as articulated in the adopted rule, is to provide investors with meaningful additional information not otherwise available about the current economics of a business as a supplement to historical cost data. A secondary objective is to provide data about the current cost of inventories and productive capacity at the balance sheet date. These are the principal operating assets of many businesses. It is recognized that replacement cost does not always measure the current economic value of such assets, but in most cases it is a reasonable approximation.

The Commission views its rule as a first step in a process of providing more meaningful disclosure about current economic costs and values to investors. It believes that the rule will encourage meaningful experimentation with the various approaches to providing such information, and as noted above it will assist the FASB in addressing the broad conceptual and practical issues involved.

The Commission also believes that the rule will provide investors with significant data now unavailable about the effect of current economic conditions on the business. The effect of inflation on monetary assets and liabilities can be approximated from data now publicly available, and the current market value of marketable securities portfolios is required to be disclosed. With the additional data provided as a result of this rule, analysts and investors should be able to develop a number of different methods of analyzing economic results, such as estimating the return on new investment, calculating rates of return on capital based on varying assumptions and developing alternative measures of economic results.

The Commission cautions investors and analysts against simplistic use of the data presented. It intentionally determined not to require the disclosure of the effect on net income of calculating cost of sales and depreciation on a current replacement cost basis, both because there are substantial theoretical problems in determining an income effect and because it did not believe that users should be encouraged to convert the data into a single revised net income figure. The data are not designed to be a simple road map to the determination of "true income." In addition, investors must understand that due to the subjective judgments and the many different specific factual circumstances involved, the data will not be fully comparable among companies and will be subject to errors of estimation.

Legal Exposure of Registrants

Finally, commentators expressed concern about the possible legal liabilities to which they would be exposed as a result of including data based on subjective judgments and estimates. While the Commission believes that registrants are protected under the law as it now exists if such data have a reasonable basis, are prepared with reasonable care and in good faith and are accompanied by disclosure of the basis of their calculation and the imprecisions inherent therein, it has determined to propose an amendment to Rule 3-17 to make this clear. This proposal is being issued for comment (in Securities Act Release No. 5696) simultaneously with the adoption of these amendments to Regulation S-X.

Effect on Competition

The Commission has considered the impact which the foregoing amendments to Regulation S-X would have upon competition and has concluded that the preparation and disclosure of replacement cost information of the type in question to the public, including registrants' competitors, will not significantly burden competition. In addition, the Commission has concluded that requiring these disclosures only by those companies whose inventories and gross property, plant and equipment aggregate $100 million or more, and whose total inventories and gross property, plant and equipment are 10% or more of its total assets, will not significantly burden the ability of such companies to compete with those which do not meet these criteria. In any event, the Commission has determined that any possible resulting burden will be far outweighed by, and is necessary and appropriate to achieve, the important benefits to investors discussed herein.

Effective Date of Regulation S-X Amendments

The Commission has determined to make Rule 3-17 of Regulation S-X effective for financial statements covering fiscal years ending on or after December 25, 1976, with the exception that it shall not apply to the mineral resource assets of companies engaged in the extractive industries prior to fiscal years ending on or after December 25, 1977, nor shall it apply to the assets located outside the North American continent and the countries of the European Economic Community prior to fiscal years ending on or after December 25, 1977, provided that the historical cost and a description of any such assets excluded from the supplemental replacement cost data are disclosed.

B. AMENDMENTS ADOPTED

Regulation S-X.

* * * * *

Rule 3-17. Current Replacement Cost Information. (New rule) *Statement of Objectives.*

The purpose of this rule is to provide information to investors which will assist them in obtaining an understanding of the current costs of operating the business which cannot be obtained from historical cost financial statements taken alone. Such information will necessarily include subjective estimates and it may be supplemented by additional disclosures to assist investors in understanding the meaning of the data in particular company situations. A secondary purpose is to provide information which will enable investors to determine the current cost of inventories and productive capacity as a measure of the current economic investment in these assets existing at the balance sheet date.

Exemption. This rule shall not apply to any person where the total of inventories and gross property, plant and equipment (i.e., before deducting accumulated depreciation, depletion and amortization) as shown in the consolidated balance sheet at the beginning of the most recently completed fiscal year is less than $100 million or where the total of inventories and gross property, plant and equipment is less than 10 percent of the total assets of the person as shown in the consolidated balance sheet at the beginning of the most recently completed fiscal year.

The information set forth below shall be shown in a note to the financial statements or as part of a separate section of the financial statements following the notes. The note or the separate section may be designated "unaudited."

(a) The current replacement cost of inventories at each fiscal year end for which a balance sheet is required shall be stated. If current replacement cost exceeds net realizable value at that date, that fact shall be stated and the amount of the excess disclosed.

(b) For the two most recent fiscal years, state the approximate amount which cost of sales would have been if it had been calculated by estimating the current replacement cost of goods and services sold at the times when the sales were made.

(c) State the estimated current cost of replacing (new) the productive capacity together with the current depreciated replacement cost of the productive capacity on hand at the end of each fiscal year for which a balance sheet is required. For purposes of this rule, assets held under financing leases as defined in Rule 3-16(q) shall be included in productive capacity. In the case of any major business segments which the company does not intend to maintain beyond the economic lives of existing assets, the disclosures set forth in Rules 3-17(c) and (d) are not required provided full disclosure of the facts, amounts and circumstances is made.

(d) For the two most recent fiscal years, state the approximate amount of depreciation, depletion and amortization which would have been recorded if it were estimated on the basis of average current replacement cost of productive capacity. For purposes of this calculation, economic lives and salvage values currently used in calculating historical cost depreciation, depletion or amortization shall generally be used. For assets being depreciated, depleted or amortized on a time expired basis, the straight-line method shall be used in making this calculation. For assets depreciated, depleted or amortized on any other basis (such as use), that basis shall be used for this calculation.

(e) Describe the methods used in determining the amounts disclosed in items (a) through (d) above. Describe what consideration, if any, was given in responding to items (a) and (b) to the related effects on direct labor costs, repairs and maintenance, utility and other indirect costs as a result of the assumed replacement of productive capacity. Where the economic lives or salvage values currently used in historical cost financial statements are not used in (d) above, an explanation of other bases used and the reasons therefor shall be disclosed. If depreciation, depletion or amortization expense is a component of inventory costs or cost of sales, indicate that fact and cross-reference the answer for this item in item (b) in order to avoid potential duplication in the use of these data.

(f) Furnish any additional information—such as the historical customary relationships between cost changes and changes in selling prices, the difficulty and related costs (such as those related to environmental regulations) which might be experienced in replacing productive capacity—of which management is aware and which it believes is necessary to prevent the above information from being misleading.

* * * * *

This amendment to Regulation S-X is adopted pursuant to Sections 6, 7, 8, 10 and 19(a) of the Securities Act of 1933; Sections 12, 13, 15(d) and 23(a) of the Securities Exchange Act of 1934; and Sections 5(b), 14 and 20(a) of the Public Utility Holding Company Act of 1935.

Rule 3-17 of Regulation S-X is effective for financial statements for fiscal years ending on or after December 25, 1976, except that the rule shall be initially applicable to the mineral resource assets of registrants engaged in the extractive industries and to registrants' assets located outside the North American continent and the countries of the European Economic Community in financial statements for fiscal years ending on or after December 25, 1977; provided that the historical cost and a description of any such assets excluded from the supplemental replacement cost data are disclosed.

By the Commission.

George A. Fitzsimmons
Secretary

APPENDIX C

STATEMENT ON AUDITING STANDARDS 18
MAY 1977

UNAUDITED REPLACEMENT COST INFORMATION

REPLACEMENT COST INFORMATION REQUIRED IN FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION

1. Although generally accepted accounting principles do not require the presentation of replacement cost information in financial statements, certain companies are required by Regulation S-X of the Securities and Exchange Commission (the Commission) to include specified replacement cost information in a note or a separate section of audited financial statements filed with the Commission. Companies suppying such information are to disclose the methods used in determining the amounts and are to furnish any additional information necessary, in the opinion of management, to prevent the information from being misleading.

2. The replacement cost information ordinarily is developed by management, using assumptions and techniques that have not yet been standardized, and consequently may differ from company to company and from year to year. Accordingly, the various approaches to calculating the replacement cost information must be viewed as experimental at the present time.

3. The Commission does not require that the replacement cost information be audited but has urged that appropriate standards be developed concerning the involvement of the auditor. This Statement provides guidance concerning the procedures the auditor should apply to unaudited replacement cost information and any supplemental related information presented in audited financial statements included in filings with the Commission.

4. The auditor should read the unaudited replacement cost information and apply the limited procedures described in paragraph 5. The objectives of the limited procedures, which consist of selected inquiries, is to provide the auditor with a reasonable basis for considering whether (a) the replacement cost information is prepared and presented in accordance with Regulation S-X of the Commission[1] and (b) management's disclosures with respect to the replacement cost information are consistent with management's responses to such inquiries. The objective of the limited procedures differs significantly from the objective of an examination of financial statements in accordance with generally accepted auditing standards. The objective of an audit is to provide a reasonable basis for expressing an opinion on the financial statements under examination. The limited procedures do not provide a basis for the expression of such an opinion because they do not include either (a) tests of records and of responses to inquiries by obtaining corroborating evidential matter through inspection, observation, or confirmation, or (b) certain other procedures ordinarily performed during an audit.

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[1]Rule 3.17 of Regulation S-X concerns replacement cost information. Section (g) states in part:

> Current replacement cost information disclosed pursuant or supplemental to the requirements of . . . shall be deemed not to be an untrue statement of a material fact . . . unless such information:
> 1. Was prepared without a reasonable basis; or
> 2. Was disclosed other than in good faith.

The Commission's staff issues staff accounting bulletins that relate to the preparation and presentation of replacement cost information in documents filed with the Commission. Also, Accounting Series Release No. 190 includes additional discussion concerning the amendment to Regulation S-X and replacement cost information.

PROCEDURES TO BE APPLIED

5. The author should apply the following limited procedures to unaudited replacement cost information presented in audited financial statements included in filings with the Commission:

a. Inquire of management as to whether the replacement cost information has been prepared and presented in accordance with the requirements of Regulation S-X.
b. Inquire of management as to the methods selected to calculate replacement cost information and the reasons for selecting them, including consideration given by management to (1) current replacement programs, (2) plans or expressed intentions concerning future replacements, (3) plans or expressed intentions not to replace certain inventories or productive capacity, and (4) technological changes that have occurred in the industry.
c. Inquire of management as to procedures used to compile the data supporting the replacement cost information and as to the relationship between data supporting the replacement cost information and data supporting the audited financial information. Examples of such inquiries follow: Are the useful lives used to calculate depreciation on the historical cost basis the same as those used on the replacement cost basis? Are inventory quantities used in the determination of inventory value for the historical cost financial statements the same as inventory quantities used to calculate the replacement cost information?
d. Inquire about the methods and bases used by management to calculate any supplemental replacement cost information, such as historical relationships between cost of sales and selling prices or the effect of technologically improved capacity replacements on operating costs.
e. If management has changed the method of calculating replacement cost information, inquire as to the reasons for using a method different from that used in the previous fiscal period.

The auditor should consider whether disclosures with respect to the unaudited replacement cost information are consistent with management's responses to the above inquiries and other information obtained during the audit of the financial statements. The auditor has no obligation to perform any procedures to corroborate management's responses concerning the unaudited replacement cost information.

6. If the auditor obtains knowledge that causes him to believe that the unaudited replacement cost information may not have been prepared or presented in accordance with Regulation S-X, the auditor should make additional inquiries as necessary to determine whether his report should be expanded in accordance with paragraph 8.

FORM OF REPORTING

7. The auditor's report on the audited financial statements filed with the Commission ordinarily need not make reference to the unaudited replacement cost information included in the financial statements, or to the auditor's limited procedures regarding such information. If the auditor concludes that there is a material inconsistency between the unaudited replacement cost information and the audited financial information, he should determine whether the audited financial statements, his report, or both require revision. If he concludes that the audited financial statements and his report thereon do not require revision, the auditor should request the client to revise the unaudited replacement cost information to conform with the requirements of Regulation S-X.

8. The auditor's report should be expanded if (a) the auditor concludes that the unaudited replacement cost information has not been prepared or presented in accordance with the requirements of Regulation S-X, or (b) the auditor has been unable to apply the limited procedures specified in paragraph 5. The following are examples of explanatory paragraphs an auditor might use in the above circumstances.

Unaudited Replacement Cost Information Not Prepared (Not Presented) in Accordance With the Requirements of Regulation S-X

Note X, "Unaudited Information," contains replacement cost information that we did not audit and, accordingly, we do not express an opinion on such information. However, we have applied certain limited procedures, which consisted of inquiries concerning the replacement cost information, in accordance with standards established by the American Institute of Certified Public Accountants. As a result of such procedures, we do not believe that (describe applicable information) has been prepared (presented) in accordance with Regulation S-X of the Securities and Exchange Commission because (state reasons).

Auditor Unable to Apply the Limited Procedures

Note X, "Unaudited Information," contains replacement cost information that we did not audit and, accordingly, we do not express an opinion on such information. Further, we have been unable to apply certain limited procedures, consisting of inquiries concerning the replacement cost information, in accordance with standards established by the American Institute of Certified Public Accountants because (state reasons).

9. If the replacement cost information is not clearly marked as "unaudited" or if it includes an indication that the auditor performed any procedures regarding the information without also indicating that the auditor does not express an opinion on the information presented, the auditor's report on the audited financial statements should be expanded to include a disclaimer of opinion on the information.

REPLACEMENT COST INFORMATION REQUIRED TO BE PRESENTED IN ANNUAL REPORTS TO SHAREHOLDERS

10. Companies required to include replacement cost information in financial statements filed with the Commission are also subject to Regulation 14A of the Commission, which requires that financial statements included in annual reports to shareholders that are to be used for the solicitation of proxies must be in substantial conformity with the financial statements filed with the Commission.[2]

11. This Statement is also applicable when quantified unaudited replacement cost information is presented in audited financial statements included in the annual report to shareholders. If such financial statements include a generalized description of the impact of changes in the prices of specific goods and services, the auditor should read the generalized description and compare the information included therein with the audited financial statements and, to the extent prepared, the related, supporting unaudited replacement cost information.[3] The auditor need not refer to such generalized description in his report if it is clearly marked as "unaudited," unless he concludes that the generalized description (1) is inconsistent with either the audited financial statements or the unaudited replacement cost information or (2) contains a material misstatement of fact. If such generalized description indicates that the auditor performed any procedures without

[2]The staff of the Commission has indicated that the financial statements included in annual reports distributed to shareholders need not include the unaudited replacement cost information required by Regulation S-X; rather, it would be satisfactory if they include a generalized description of the impact of changes in the prices of specific goods and services and a reference to the unaudited replacement cost information contained in the financial statements filed with the Commission.

[3]Inasmuch as the procedures specified in paragraph 5 are not audit procedures required by generally accepted auditing standards, the application of such procedures subsequent to the date of the auditor's report in connection with reporting on financial statements containing unaudited quantified replacement cost information for filing with the Commission does not necessitate dual dating of the auditor's report on such financial statements.

also indicating that the auditor does not express an opinion on the generalized description, the auditor's report on the audited financial statements should be expanded to include a disclaimer of opinion on the generalized description.

REPLACEMENT COST INFORMATION NOT REQUIRED TO BE PRESENTED IN FINANCIAL STATEMENTS

12. Some companies not required by Regulation S-X to present replacement cost information may include such information, prepared either in a manner consistent with the requirements of Regulation S-X or in a different manner, in audited financial statements. Users of such financial statements may not be able to differentiate between required replacement cost information with respect to which an auditor has performed certain limited procedures and other replacement cost information that is not required and with respect to which such procedures have not been performed. Therefore, when companies which are not required by Regulation S-X to present replacement cost information include such information in audited financial statements, the provisions of this Statement are applicable, unless the note or separate section of the financial statements including such information is clearly marked as "unaudited" and states that the auditor has not applied the limited procedures described in this Statement.[4]

The Statement entitled "Unaudited Replacement Cost Information" was adopted unanimously by the twenty members of the Committee.

AUDITING STANDARDS EXECUTIVE COMMITTEE (1976-1977)

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WILLIAM J. HAGGERTY, *Manager Auditing Standards*

Note: *Statements on Auditing Standards are issued by the Auditing Standards Executive Committee, the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Rule 202 of the Institute's Code of Professional Ethics requires adherence to the applicable generally accepted auditing standards promulgated by the Institute. It recognizes Statements on Auditing Standards as interpretations of generally accepted auditing standards and requires that members be prepared to justify departures from such Statements.*

[4]Paragraph 31 of SAS No. 2 describes other reporting obligations of the auditor when unaudited information appears in financial statements on which the auditor is reporting.

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